

POWELL'S VALLEY WATER DISTRICT  
Clay City, Kentucky

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
for the year ended December 31, 2018

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Powell's Valley Water District  
Clay City, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Powell's Valley Water District as of and for the year ended December 31, 2018, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Powell's Valley Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

### ***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 standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Powell's Valley Water District, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require 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 and historical context. Our opinion on the basic financial statements is not affected by this missing information.

The Schedule of the Proportionate Share of Net Pension Liability, the Schedule of Employer's Contributions – Net Pension Liability, Schedule of the Proportionate Share of Net OPEB Liability and the Schedule of Employer's Contributions – Net OPEB Liability 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Powell's Valley Water District basic financial statements. The Comparative Statement of Revenues and Expenses and the Statement of Revenues and Expenses – Water and Sewer are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, Comparative Statement of Revenues and Expenses and the Statement of Revenues and Expenses – Water and Sewer 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 Schedule of Expenditures of Federal Awards, Comparative Statement of Revenues and Expenses and the Statement of Revenues and Expenses – Water and Sewer 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 May 16, 2019, on our consideration of the Powell's Valley Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Powell's Valley Water District's internal control over financial reporting and compliance.

*John T. Lane & Associates LLC*

Mount Sterling, Kentucky

May 16, 2019

This report contains 33 pages.

POWELL'S VALLEY WATER DISTRICT  
Statement of Net Position  
Proprietary Fund  
December 31, 2018

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	\$ 201,383
Cash and cash equivalents - restricted (note 1)	315,017
Accounts receivable - net of allowance for doubtful accounts (note 1)	107,547
Inventory (note 1)	10,674
Prepaid expenses	10,149
Total Current Assets	644,770
Noncurrent Assets	
Capital assets:	
Land	16,888
Plant, equipment and lines	10,438,141
Less accumulated depreciation	(3,980,297)
Total Noncurrent Assets	6,474,732
Deferred Outflows of Resources	164,986
Total Assets and Deferred Outflows of Resources	\$ 7,284,488
LIABILITIES	
Current Liabilities	
Accrued expenses	\$ 60,346
Notes payable	59,992
Bonds payable	90,000
Payable from restricted assets	133,878
Total Current Liabilities	344,216
Noncurrent Liabilities	
Net pension liability	577,970
Net OPEB liability	168,475
Bonds payable	2,053,200
Total Noncurrent Liabilities	2,799,645
Deferred Inflows of Resources	86,524
Total Liabilities and Deferred Inflows of Resources	3,230,385
NET POSITION	
Net investment in capital assets	4,271,540
Restricted	181,139
Unrestricted	(398,576)
Total Net Position	\$ 4,054,103

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

POWELL'S VALLEY WATER DISTRICT  
 Statement of Revenues, Expenses and Changes in Fund Net Position  
 Proprietary Fund  
 for the year ended December 31, 2018

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Operating Revenues	
User fees	\$ 1,351,020
Other water revenue	<u>50,591</u>
Total Operating Revenues	<u>1,401,611</u>
Expenses	
Water purchased	407,750
Salaries	246,458
Office	13,264
Insurance	28,749
Taxes	21,862
Outside services	57,620
Employee benefits	223,430
Miscellaneous	3,468
Depreciation	223,327
Supplies	125,643
Utilities	84,188
Vehicle expense	<u>22,610</u>
Total Operating Expenses	<u>1,458,369</u>
Operating Income (Loss)	<u>(56,758)</u>
Nonoperating Revenues (Expenses)	
Grants	344,200
Miscellaneous income	14,637
Interest income	850
Interest expense	<u>(92,905)</u>
Net Nonoperating Revenues (Expenses)	<u>266,782</u>
Change in Net Position	210,024
Total Net Position - beginning	3,996,948
Prior period adjustment	<u>(152,869)</u>
Total Net Position - ending	<u><u>\$ 4,054,103</u></u>

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

POWELL'S VALLEY WATER DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
December 31, 2018

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 1,406,655
Cash paid to employees	(246,458)
Cash paid for general and administrative expenses	<u>(933,442)</u>
Net Cash provided / (used) by operating activities	<u>226,755</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	850
Customer deposits	<u>5,652</u>
Net Cash provided / (used) by investing activities	<u>6,502</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Grants	344,200
Miscellaneous revenue	14,637
Bond payments	(61,400)
Loan payments	(435,513)
Bond proceeds	520,000
Loan proceeds	339,285
Purchase of capital assets	(763,255)
Interest paid	<u>(92,905)</u>
Net Cash provided / (used) in capital and financing activities	<u>(134,951)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	98,306
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>418,094</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 516,400</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (56,758)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(increase) / decrease in prepaid	(2,469)
(increase) / decrease in inventory	(1,588)
depreciation	223,327
increase / (decrease) in pension expense due to GASB 68/75	61,902
(increase) / decrease in accounts receivable	5,044
increase / (decrease) in accounts payable	<u>(2,703)</u>
Net cash provided / (used) by operating activities	<u><u>\$ 226,755</u></u>

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

POWELL'S VALLEY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

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Note 1 - Summary of Significant Accounting Policies

The Powell's Valley Water District is a water utility which services areas of Powell County. Its sales are primarily to residential customers. The District is a corporate body set forth in KRS 74.070 which was created November 1961. The District is subject to the regulatory authority of The Kentucky Public Service Commission pursuant to KRS 278.040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The 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 Powell's Valley Water 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 governing authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

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

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The required balance of the fund at year end was \$16,692. The District had set aside \$79,307 into this fund at December 31, 2018.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2018 was \$12,045. The District had set aside \$145,763.

Short Lived Asset Account – This account is separate from the Depreciation Reserve account, and the amount of \$900 should be deposited into the account each month in accordance with the Letter of Conditions for the USDA Rural Development loan number 91-21. In August of 2018, the Board approved a motion to make a \$900 deposit into this account in the amount of \$900 when cash flow allowed. The balance of the account at year end was \$61.

Enterprise Funds

An enterprise fund distinguishes 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 the Water District's principal ongoing operations. The principal operating revenues of the Water District are operating grants and tenant rental revenue. Operating expenses of the Water District include the cost of producing the revenue and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segmented into net investment in capital assets, restricted and unrestricted components. 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.

Basis of Accounting

The records of the District are maintained, and the budgetary process is based on the accrual method of accounting.



**Inventory**

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded at cost as an asset at that time.

**Deposits**

The District considers all highly liquid investments with a maturity date of twelve months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents. At December 31, 2018, the carrying amount of the District's deposits was \$516,400 and the bank balance was \$550,200. Of the bank balance 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

<b>Summary of Cash &amp; Cash Equivalents</b>			
<b>Description</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
Deposit fund	\$ 89,651	\$ -	\$ 89,651
Operating fund	141,363	13,668	155,031
Sinking fund	125,413	20,289	145,702
Depreciation reserve fund	60,566	18,741	79,307
Short-Lived Assets 91-21	61	-	61
Black Creek pump station project	296		296
Certificate of deposit	45,627		45,627
Cash on hand	725	-	725
<b>Totals</b>	<b><u>\$ 463,702</u></b>	<b><u>\$ 52,698</u></b>	<b><u>\$ 516,400</u></b>

**Capital Assets**

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Lines and tanks	50 years
Equipment	10 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

**Accounts Receivable**

The receivable reflected in the statements in the amount of \$107,547 are net of allowance for uncollectibles in the amount of \$34,170.

**Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

**Use of Estimates**

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

**Pensions**

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

## Note 2 – Defined Benefit Pension Plan

**General Information About the Pension Plan**

*Plan description* - Regular, full-time, employees of the Water District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky Retirement System issues a publicly available financial report that can be obtained on their website.

*Benefits provided* - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Membership in the CERS Non-hazardous Pension Fund consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Membership Status

Inactive plan members currently receiving benefits	56,629
Inactive plan members entitled to but not yet receiving benefits	81,608
Active plan members	<u>84,435</u>
Total plan members	222,672

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the Legislature.

*Contributions* - Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The Water District's contractually required contribution rate for the year ended December 31, 2018 was 19.18%/21.48 (14.48%/16.22% pension; 4.70%/5.26% insurance) of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Water District were \$47,929 for the year ended December 31, 2018. The contribution was allocated \$36,189 to the pension fund and \$11,740 to the insurance fund.

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

At December 31, 2018, the reported a liability of \$577,970 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 was determined by an actuarial valuation as of that date. The Water District's portion of the net pension liability was based on the Water District's proportionate share of retirement contributions for the fiscal year ended June 30, 2018. At June 30, 2018 the Water District's proportionate share was 0.009490%.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. For the year

ended December 31, 2018, the Water District recognized pension expense of \$89,163. At December 31, 2018, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Liability Experience	\$ 18,852	8,460
Changes in assumptions	56,484	-0-
Differences between expected and actual Investment Experience	26,876	33,806
Changes in proportion and differences between employer contributions and proportionate share of contributions	925	8,334
Contributions subsequent to the measurement date	<u>19,243</u>	<u>-0-</u>
Total	\$ 122,380	\$ 50,600

\$19,243 reported as deferred outflows of resources related to pensions resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. The remaining amount of \$52,537 reported as the net effect of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2019	\$ 43,551
December 31, 2020	20,280
December 31, 2021	(8,193)
December 31, 2022	(3,101)
December 31, 2023	-0-
Thereafter	<u>-0-</u>
Total	\$ 52,537

*Actuarial methods & assumptions:* For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension 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. The actuarial assumptions are:

Inflation	2.30%
Salary Increases	3.05%
Investment Rate of Return	6.25% for CERS Non-hazardous, and hazardous, and
KERS Hazardous, 5.25% for KERS Non-hazardous	

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. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

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

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00% average
Investment Rate of Return	7.50% for CERS Non-hazardous, CERS Hazardous, and KERS Hazardous, 6.75% for KERS Non-hazardous

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

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 in the tables below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*Discount rate* - The projection of cash flows used to determine the discount rate of 5.25% for the KERS Non-hazardous, and 6.25% for KERS Hazardous, CERS Non-hazardous, and CERS 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 does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

*Sensitivity of the Water District's proportionate share of the net pension liability to changes in the discount rate* - The following presents the net pension liability of the System, calculated using the discount rate of percent, as well as what the System's net pension liability 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 for non-hazardous:

	1% Decrease <u>5.25%</u>	Current Discount Rate <u>6.25%</u>	1% Increase <u>7.25%</u>
Proportionate share of the net pension liability	\$ 727,604	\$ 577,970	\$ 452,603

*Pension plan fiduciary net position* - Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report.

**Note 3 - Other Postemployment Benefits Plan (OPEB)**

Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

**Plan Description** - The Kentucky Retirement Systems' (KRS) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) 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 health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

*Actuarial Methods & Assumptions* - 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.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	0.0% for KERS non-hazardous and hazardous, and 2.0% for CERS non-hazardous and hazardous
Salary Increases	3.05%, average
Investment Rate of Return	6.25% Healthcare
Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

*Long-Term Expected Rate of Return* - 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 in the tables below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*Discount Rate* - The projection of cash flows used to determine the discount rate of 5.86% for KERS Non-hazardous, 5.88% for KERS Hazardous, 5.85% for CERS Non-hazardous, and 5.97% for CERS 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.

*Use of Estimates in the Preparation of the Schedules* - The preparation of the schedules in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

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

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal Amortization
Method	Level Percent of Pay Remaining
Amortization Period	27 Years, Closed Payroll Growth
Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increases	4.00%, average
Investment Rate of Return	7.50% 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.
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.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

*Implicit Subsidy* - The fully-insured premiums KRS pays for the KERS, CERS and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after the measurement date. The Water District's implicit subsidy for the year ended December 31, 2018 was \$1,238.

*Contributions* - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding 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 determined in accordance with actuarial bases adopted by the Board.

For the fiscal year ended December 31, 2018, participating employers contributed 4.73%/5.26% of each employee's covered payroll to the Kentucky Retirement Systems' Insurance Fund, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Employees hired after September 1, 2008 are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits, and the 1% contribution to the 401(h) account is non-refundable.

The Water District contributed \$11,740 for the year ended December 31, 2018 of the required contribution to the insurance fund. Total contributions to the insurance fund, including the implicit subsidy for the year ended June 30, 2017 were \$13,065. For additional information regarding contributions, please refer to the Defined Benefit Pension Plan footnote.

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* - At December 31, 2018, the Water District reported a liability of \$168,475 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled-forward to June 30, 2018 using generally accepted actuarial principles. The Water District's proportion of the net OPEB liability was determined using the Water District's actual contributions for the year ended June 30, 2018. This method is expected to be reflective of the Water District's long-term contribution effort. For the year ended December 31, 2018, the Water District's proportion was 0.009490% which is equal to its proportion measured as of June 30, 2018.

For the year ended December 31, 2018, the Water District recognized OPEB expense of \$20,667. At December 31, 2018, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual liability experience	\$ -0-	\$ 19,634
Effects of changes in assumptions	33,647	389
Differences between projected and actual earnings on plan investments	-0-	11,605
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	4,294
Contributions subsequent to the measurement date + implicit subsidy	<u>8,958</u>	<u>-0-</u>
Total	\$ 42,605	\$ 35,922

\$8,958 reported of deferred outflows of resources resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as the net effect of deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2019	\$ (227)
December 31, 2020	(227)
December 31, 2021	(227)
December 31, 2022	2,026
December 31, 2023	(2,289)
Thereafter	<u>(1,331)</u>
Total	\$ (2,275)

*Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate* – The following presents the proportionate share of the net OPEB liability calculated using the single discount rate of 5.84%, as well as what the Water District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (4.84 percent) or 1% higher (6.84 percent) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	4.84%	\$ 218,822
Current discount rate	5.84%	\$ 168,475
1% increase	6.84%	\$ 125,589

*Sensitivity of the Water District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following presents the proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1% lower or 1% higher than the current rates:

	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	\$ 125,432
Current healthcare cost trend rate	\$ 168,475
1% increase	\$ 219,212

#### Note 4 – Bonds & Notes Payable

##### *Bonds Payable*

The amount shown in the accompanying financial statements as bonds payable represents the District's future obligation to make payments from future revenues. At December 31, 2018, seven separate bonds had outstanding balances. Details of each of these bonds are summarized as follows:

##### Note A

Lender – Rural Development

Original loan amount - \$238,000

Balance of loan - \$100,500

Rate - 5%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.



## Maturities

	Total		
	Principal	Interest	Payment
2019	\$ 9,000	\$ 4,800	\$ 13,800
2020	9,500	4,338	13,838
2021	10,000	3,850	13,850
2022	10,500	3,338	13,838
2023	11,000	2,800	13,800
2024-2027	50,500	5,213	55,713
Total	\$ 100,500	\$ 24,339	\$ 124,839

## Note B

Lender – Rural Development

Original loan amount - \$194,000

Balance of loan - \$103,000

Rate – 5%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

## Maturities

	Total		
	Principal	Interest	Payment
2019	\$ 6,000	\$ 5,000	\$ 11,000
2020	7,000	4,675	11,675
2021	7,000	4,325	11,325
2022	7,000	3,975	10,975
2023	8,000	3,600	11,600
2024-2028	40,000	12,200	52,200
2029-2031	28,000	2,100	30,100

## Note C

Lender – Rural Development

Original loan amount - \$631,000

Balance of loan - \$388,000

Rate – 4.5%

Principal due – January 1

Interest due – January 1 and July 1

Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

## Maturities

	Total		
	Principal	Interest	Payment
2019	\$ 18,000	\$ 17,055	\$ 35,055
2020	19,000	16,223	35,223
2021	20,000	15,345	35,345
2022	21,000	14,423	35,423
2023	22,000	13,455	35,455
2024-2028	127,000	51,075	178,075
2029-2033	161,000	18,653	179,653
Total	\$ 388,000	\$ 146,229	\$ 534,229

## Note D

Lender – Rural Development

Original loan amount - \$460,000

Balance of loan - \$274,500

Rate – 4.5%

Principal due – January 1

Interest due – January 1 and July 1

Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Total		
	Principal	Interest	Payment
2019	\$ 13,000	\$ 12,060	\$ 25,060
2020	14,000	11,453	25,453
2021	14,000	10,823	24,823
2022	15,000	10,170	25,170
2023	15,500	9,484	24,984
2024-2028	89,500	35,944	125,444
2029-2033	113,500	13,399	126,899
Total	\$ 274,500	\$ 103,333	\$ 377,833

## Note E

Lender – Rural Development

Original loan amount - \$600,000

Balance of loan - \$493,000

Rate – 4.5%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Total		
	Principal	Interest	Payment
2019	\$ 11,000	\$ 21,938	\$ 32,938
2020	12,000	21,420	33,420
2021	12,000	20,880	32,880
2022	13,000	20,318	33,318
2023	13,000	19,733	32,733
2024-2028	75,000	89,033	164,033
2029-2033	95,000	70,088	165,088
2034-2038	116,000	46,440	162,440
2039-2043	146,000	16,965	162,965
Total	\$ 493,000	\$ 326,815	\$ 819,815

## Note F

Lender – Rural Development

Original loan amount - \$520,000

Balance of loan - \$520,000

Rate – 2.75%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			Total
	Principal	Interest	Payment
2019	\$ -	\$ 14,300	\$ 14,300
2020	8,000	14,190	22,190
2021	8,000	13,970	21,970
2022	8,500	13,743	22,243
2023	8,500	13,509	22,009
2024-2028	47,000	63,800	110,800
2029-2033	53,500	56,918	110,418
2034-2038	61,000	49,046	110,046
2039-2043	70,500	40,019	110,519
2044-2048	80,000	29,700	109,700
2049-2053	92,500	17,841	110,341
2054-2058	82,500	4,586	87,086
Total	\$ 520,000	\$ 331,622	\$ 851,622

## Note G

Lender – Rural Development

Original loan amount - \$300,000

Balance of loan - \$241,000

Rate – 4.5%

Principle due – January 1

Interest due – January 1 and July 1

Prepayment provision – subject to payment prior to its state maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			Total
	Principal	Interest	Payment
2019	\$ 6,000	\$ 10,710	\$ 16,710
2020	6,000	10,440	16,440
2021	6,500	10,159	16,659
2022	6,500	9,866	16,366
2023	7,000	9,563	16,563
2024-2028	39,000	42,795	81,795
2029-2033	49,500	32,861	82,361
2034-2038	61,000	20,543	81,543
2039-2042	59,500	5,501	65,001
Total	\$ 241,000	\$ 152,438	\$ 393,438

## Note H

Lender – Rural Development

Original loan amount - \$27,000

Balance of loan - \$23,200

Rate – 4.375%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

## Maturities

			Total
	Principal	Interest	Payment
2019	\$ 500	\$ 1,004	\$ 1,504
2020	500	982	1,482
2021	500	960	1,460
2022	500	938	1,438
2023	500	917	1,417
2024-2028	3,100	4,198	7,298
2029-2033	3,800	3,448	7,248
2034-2038	4,800	2,507	7,307
2039-2043	5,900	1,345	7,245
2044-2045	3,100	142	3,242

*Notes Payable*

On October 11, 2018, the District obtained a loan from Whitaker Bank. \$25,499 was financed and used to purchase a 2018 Chevrolet Silverado. Interest rate is 3.25% and the term of the loan is 24 months. Loan number is 4500639350.

## Maturities:

			Total
	Principal	Interest	Payment
2019	\$ 19,919	\$ 496	\$ 20,415

October 11, 2018, the District obtained a loan from Whitaker Bank. \$25,499 was financed and used to purchase a 2018 Chevrolet Silverado. Interest rate is 3.25% and the term of the loan is 24 months. Loan number is 4500639351.

## Maturities:

			Total
	Principal	Interest	Payment
2019	\$ 19,919	\$ 496	\$ 20,415

On October 11, 2018, the District obtained a loan from Whitaker Bank. \$25,799 was financed and used to purchase a 2018 Chevrolet Silverado. Interest rate is 3.25% and the term of the loan is 24 months. Loan number is 4500639352.

## Maturities:

			Total
	Principal	Interest	Payment
2019	\$ 20,154	\$ 5,281	\$ 25,435

On November 17, 2018, the District obtained an open line of credit from Whitaker Bank to temporarily finance the Black Creek pump station project. This loan was paid off using funds from Rural Development. Account number was 4500639368.

**Bonds and Notes Payable**

A summary of all bonds and notes outstanding follows:

	Outstanding 1/1/2018	Issued	Retired	Outstanding 12/31/2018	Due Within One Year
<b>Bonds Payable</b>					
Rural Development	\$ 1,684,600	\$ 520,000	\$ 61,400	\$ 2,143,200	\$ 90,000
<b>Notes Payable</b>					
Whitaker Bank 4500639350	24,716	-	4,797	19,919	19,919
Whitaker Bank 4500639351	24,716	-	4,797	19,919	19,919
Whitaker Bank 4500639352	25,006	-	4,852	20,154	20,154
Whitaker Bank 4500639368	<u>81,783</u>	<u>339,285</u>	<u>421,068</u>	<u>-</u>	<u>-</u>
Total bonds payable	1,684,600	520,000	61,400	2,143,200	90,000
Total notes payable	<u>156,221</u>	<u>339,285</u>	<u>435,514</u>	<u>59,992</u>	<u>59,992</u>
Total bonds/notes payable	\$ 1,840,821	\$ 859,285	\$ 496,914	\$ 2,203,192	\$ 149,992

**Note 5 - Leave Policies****Annual and Sick Leave**

The District no longer requires that sick and annual leave be paid annually. No additional accrued leave days are permitted. District employees accrue sick leave at the rate of one day per month. They accrue annual leave at the rate of five days per year for less than three years employment and ten days for employment exceeding three years and fifteen days for employment exceeding ten years. No leave may be collected on termination.

**Note 6 - Changes in Capital Assets**

The following is a summary of changes in the capital assets for the year:

	Balance 1/1/2018	Transfers/ Additions	Deletions	Balance 12/31/2018
Land, non-depreciable	\$ 16,888			\$ 16,888
Plant, equipment & lines	9,593,104	845,037		10,438,141
Construction in process	<u>81,782</u>	<u>(81,782)</u>	-	<u>-</u>
Total	<u>\$ 9,691,774</u>	<u>\$ 763,255</u>	<u>\$ -</u>	<u>\$ 10,455,029</u>
Accumulated depreciation	<u>\$ 3,756,970</u>	<u>\$ 223,327</u>	<u>\$ -</u>	<u>\$ 3,980,297</u>
Capital assets, net of accumulated depreciation	<u>\$ 5,934,804</u>	<u>\$ 539,928</u>	<u>\$ -</u>	<u>\$ 6,474,732</u>

**Note 7 - Revenue Bonds**

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account. The District also must transfer \$456 per month into a depreciation fund.

**Note 8 - Restricted Cash**

Restricted cash is composed of the following:

Deposit account	\$ 89,651
Depreciation reserve fund	79,307
Debt reserve fund	145,763
Black Creek	<u>296</u>
	\$ 315,017

**Note 9 – Contingencies**

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2018. Areas of noncompliance, if any, as a result of examinations would be included as a part of the "Findings and Questioned Costs" section of this report.

**Note 10 – Risk Management**

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

**Note 11 – Prior Period Adjustment**

Adjustments were made in accordance with GASBs 68 and 75. Two prior period adjustments were made in the amounts of \$(163,151) and \$10,282 netting to \$(152,869):

Debit   (Credit)			
Account	Amount	Amount	Total
Net pension liability	\$ -	\$ (8,911)	\$ (8,911)
Net OPEB liability	(195,445)	26,970	(168,475)
Deferred inflows of resources	(10,234)	(22,424)	(32,658)
Deferred outflows of resources	42,528	(47,255)	(4,727)
Pension expense (retirement contr.)	-0-	61,902	61,902
Total	\$ (163,151)	\$ 10,282	\$ (152,869)

**Note 12 – Subsequent Events**

The Authority has evaluated subsequent events through May 16, 2019, and that is the date that the financial statements were available to be issued.

**Note 13 - Noncurrent Liabilities**

Description	Balance,			Balance,		
	01/01/2018	Additions	Subtractions	12/31/2018	Current Portion	Noncurrent Portion
Bonds payable	\$ 1,684,600	\$ 520,000	\$ 61,400	\$ 2,143,200	\$ 90,000	\$ 2,053,200
NPL	569,059	8,911	-	577,970	-	577,970
OPEB	-	168,475	-	168,475	-	168,475
	\$ 2,253,659	\$ 697,386	\$ 61,400	\$ 2,889,645	\$ 90,000	\$ 2,799,645

REQUIRED SUPPLEMENTARY INFORMATION

POWELL'S VALLEY WATER DISTRICT  
 Schedule of Employer's Proportionate Share of Net Pension Liability  
 December 31, 2018

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	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Proportion of the net pension liability (asset)	0.009721%	0.009680%	0.009722%	0.009490%
Proportionate share of the net pension liability (asset)	\$ 315,000	\$ 476,826	\$ 569,059	\$ 577,970
Covered employee payroll	\$ 358,287	\$ 236,955	\$ 236,700	\$ 235,201
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	87.92%	201.23%	240.41%	245.73%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	55.50%	53.30%	53.54%



POWELL'S VALLEY WATER DISTRICT  
 Schedule of Employer's Contributions - Net Pension Liability  
 December 31, 2018

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	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>
Contractually required contribution	\$ 28,886	\$ 31,303	\$ 33,054	\$ 36,188
Contributions in relation to the contractually required contri	<u>28,886</u>	<u>31,303</u>	<u>33,054</u>	<u>36,188</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 229,569</u>	<u>\$ 236,955</u>	<u>\$ 232,462</u>	<u>\$ 235,662</u>
Contributions as a percentage of covered employee payrc	12.58%	13.21%	14.22%	15.36%

POWELL'S VALLEY WATER DISTRICT  
 Schedule of Employer's Proportionate Share of Net OPEB Liability  
 December 31, 2018

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	6/30/2017	6/30/2018
Proportion of net OPEB liability (asset)	0.009722%	0.009490%
Proportionate share of net OPEB liability (asset)	\$ 195,445	\$ 577,970
Covered employee payroll	\$ 236,700	\$ 235,021
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	82.57%	245.92%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	53.54%

POWELL'S VALLEY WATER DISTRICT  
Schedule of Employer's Contributions - Net OPEB Liability  
December 31, 2018

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	<u>12/31/2017</u>	<u>12/31/2018</u>
Statutorily required contribution	\$ 10,961	\$ 11,740
Contributions in relation to the statutorily required contribution	<u>10,961</u>	<u>11,740</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 232,462</u>	<u>\$ 235,662</u>
Contributions as a percentage of covered-employee payroll	4.72%	4.98%

Powell's Valley Water District  
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
 For the year ended December 31, 2018

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**Net Pension Liability**

*Method 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 ending 2018, determined as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contributions are below:*

- Determined by the actuarial valuation as of: June 30, 2016
- Actuarial cost method: Entry age
- Asset valuation method: 20% of the difference between market value of assets and the expected actuarial value of assets is recognized
  
- Amortization method: Level percent of pay
- Amortization period: 27 years, closed
- Investment return: 7.50%
- Inflation: 3.25%
- Salary increase: 4.00%, average
- Mortality: RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

**Net OPEB Liability**

The actuarially determined contributions rates effective for fiscal year ending 2018 that are documented in the schedule, Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Trend Rate, are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contributions are below:

- Determined by the actuarial valuation as of: June 30, 2016
- Actuarial cost method: Entry Age Normal
- Asset valuation method: 20% of the difference between market value of assets and the expected actuarial value of assets is recognized
  
- Amortization method: Level Percent of Pay
- Amortization period: 27 Years, Closed
- Payroll Growth Rate: 4.00%
- Investment return: 7.50%
- Inflation: 3.25%
- Salary Increase: 4.00%, average
- Mortality: RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)7.50%
  
- 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.
  - 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.

SUPPLEMENTARY INFORMATION

# John T. Lane and Associates, LLC

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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*

Board of Commissioners  
Powell's Valley Water District  
Clay City, Kentucky

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 the Powell's Valley Water District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Powell's Valley Water District's basic financial statements, and have issued our report thereon dated May 16, 2019.

## **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. [2018-001]

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Powell's Valley Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 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.

*John T. Lane & Associates LLC*

Mount Sterling, Kentucky

May 16, 2019

POWELL'S VALLEY WATER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 for the year ended December 31, 2018

<u>Program Title</u>	<u>Federal CFDA#</u>	<u>Federal Expenditures</u>
U.S. Department of HUD Direct Program Waste & Waste Disposal Systems for Rural Communities	10.760	\$ <u>864,200</u>
Total		\$ <u>864,200</u>

Notes to Schedule of Expenditures of Federal Awards

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Powell's Valley Water District ("District"), under programs of the federal government for the year ended December 31, 2018, in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance").

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award program and does present transactions that would be included in financial statements of the District presented on the accrual basis of accounting as contemplated by generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited to reimbursement.

NOTE C – INDIRECT COST RATE

The District elected not to use the 10% de minimis cost rate allowed under Uniform Guidance.

NOTE D – LOANS

The District was awarded a loan from the United States Department of Agriculture in the amount of \$520,000. The District began making draws on this loan and expending the funds in January 2018. The repayment schedule for this loan is located in the Notes to the Financial Statements under Note 2. The balance of the loan at December 31, 2018 was \$520,000.



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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners  
Powell's Valley Water District  
Clay City, Kentucky

### **Report on Compliance for Each Major Federal Program**

We have audited the Powell's Valley Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Powell's Valley Water District's major federal programs for the year ended December 31, 2018. The Powell's Valley Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

Our responsibility is to express an opinion on compliance for each of the Powell's Valley Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Powell's Valley Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Powell's Valley Water District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Powell's Valley Water District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## Report on Internal Control over Compliance

Management of the Powell's Valley Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Powell's Valley Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Powell's Valley Water District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*John T. Lane & Associates LLC*

Mount Sterling, Kentucky

May 16, 2019

POWELL'S VALLEY WATER DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 December 31, 2018

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A. Summary of Auditor's Results

**Financial Statements**

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:  
 Material weakness(es) identified? \_\_\_\_\_ yes      x   no

Significant deficiency(ies) identified?   x   yes    \_\_\_\_\_ no

Noncompliance material to financial statements noted? \_\_\_\_\_ yes      x   no

**Federal Awards**

Internal control over major programs:  
 Material weakness(es) identified? \_\_\_\_\_ yes      x   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes      x   no

Type of auditor's report issued on compliance for major programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with *Uniform Guidance*? \_\_\_\_\_ yes      x   no

**Identification of Major Programs**

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
10.760	Waste & Waste Disposal Systems for Rural Communities

**Miscellaneous**

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes      x   no

B. Financial Statement Findings

PRIOR FINDINGS

2017-001 Lack of Segregation of Duties – repeated as 2018-001

CURRENT FINDINGS

2018-001 Lack of Segregation of Duties

Condition: The District has an inadequate segregation of duties within its internal control process.

Criteria: All governmental entities should design their internal control to provide an adequate segregation of duties.

Cause: The District does not have sufficient employees to adequately design its internal control.

Recommendation: The District should continue to design and implement its internal control policies to provide the maximum segregation of duties possible.

Response: We will do as recommended.

C. Federal Award Findings & Questioned Costs

None

POWELL'S VALLEY WATER DISTRICT  
Comparative Statement of Revenues and Expenses  
for the years ended December 31, 2017 and 2018

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	2017	2018
Revenues		
User fees	\$ 1,216,575	\$ 1,351,020
Other water revenue	45,780	50,591
Total Revenues	1,262,355	1,401,611
Expenses		
Water purchased	380,084	407,750
Salaries	243,259	246,458
Office	14,213	13,264
Insurance	19,569	28,749
Taxes	23,360	21,862
Outside services	53,412	57,620
Employee benefits	214,811	223,430
Miscellaneous	814	3,468
Depreciation	198,009	223,327
Supplies	126,125	125,643
Utilities	79,890	84,188
Vehicle expense	21,061	22,610
Total Operating Expenses	1,374,607	1,458,369
Operating Income (Loss)	(112,252)	(56,758)
Nonoperating Revenues (Expenses)		
Grants	-	344,200
Miscellaneous income	7,120	14,637
Interest income	768	850
Interest expense	(76,913)	(92,905)
Net Nonoperating Revenues (Expenses)	(69,025)	266,782
Change in Net Position	\$ (181,277)	\$ 210,024

POWELL'S VALLEY WATER DISTRICT  
Statement of Revenues and Expenses  
Water and Sewer  
for the year ended December 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Revenues			
User fees	\$ 1,254,070	\$ 96,950	\$ 1,351,020
Other water revenue	<u>50,591</u>	<u>-</u>	<u>50,591</u>
Total Revenues	<u>1,304,661</u>	<u>96,950</u>	<u>1,401,611</u>
Expenses			
Water purchased	407,750	-	407,750
Salaries	246,458	-	246,458
Office	12,602	662	13,264
Insurance	28,749	-	28,749
Taxes	20,959	903	21,862
Outside services	52,740	4,880	57,620
Employee benefits	223,430	-	223,430
Miscellaneous	3,334	134	3,468
Depreciation	203,717	19,610	223,327
Supplies	81,005	44,638	125,643
Utilities	65,234	18,954	84,188
Vehicle expense	<u>22,610</u>	<u>-</u>	<u>22,610</u>
Total Operating Expenses	<u>1,368,588</u>	<u>89,781</u>	<u>1,458,369</u>
Operating Income (Loss)	<u>(63,927)</u>	<u>7,169</u>	<u>(56,758)</u>
Nonoperating Revenues (Expenses)			
Grants	344,200	-	344,200
Miscellaneous income	14,637	-	14,637
Interest income	814	36	850
Interest expense	<u>(81,101)</u>	<u>(11,804)</u>	<u>(92,905)</u>
Net Nonoperating Revenues (Expenses)	<u>278,550</u>	<u>(11,768)</u>	<u>266,782</u>
Change in Net Position	<u>\$ 214,623</u>	<u>\$ (4,599)</u>	<u>\$ 210,024</u>