

Jonathan Creek Water District

Financial Statements

December 31, 2018

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 6
Statement of Net Position	7 - 8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11 - 26
Required Supplementary Information	
Schedule of the District's Proportionate Share of the Net Pension Liability - CERS	27
Schedule of the District's Contributions to the Net Pension Liability – CERS	28
Schedule of the District's Proportionate Share of the Net OPEB Liability – CERS	29
Schedule of the District's Contributions to the Net OPEB Liability	30
Supplementary Information	
Schedule of Operating Expense	31
Schedule of Water Rates in Force	32
Schedule of Current Year Findings and Responses	33
Schedule of Prior Year Findings and Responses	34
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 <i>Government Auditing Standards</i>	35 - 36



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INDEPENDENT AUDITOR'S REPORT

Jonathan Creek Water District
Benton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the the business-type activities of the Jonathan Creek Water District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Jonathan Creek Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Jonathan Creek 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.

Change in Accounting Principle

As discussed in Notes 6 and 9 to the financial statements, effective July 1, 2017 the District adopted the new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-6 and the net pension and OPEB liability information on pages 27-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jonathan Creek Water District's basic financial statements. The accompanying supplemental information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplemental information is 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 accompanying supplemental information is 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 April 17, 2019 on our consideration of the Jonathan Creek 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 Jonathan Creek Water District's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

April 17, 2019

**Jonathan Creek Water District
Management's Discussion and Analysis
December 31, 2018**

Our discussion and analysis of the Jonathan Creek Water District's financial performance provides an overview of the District's financial activities for the year ending December 31, 2018. This information presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Operating revenues for year ending December 31, 2018 were \$1,032,292 or an increase of 14.44%. This increase was due an increase rates at the beginning of the year. Tap fees for the year were \$28,000. Interest income, and other income sources remained comparable.

Operating expenses for the year ending December 31, 2018 were \$1,192,225 or an increase of 10.39%. Expenses increased due to the addition of the OPEB liability and causing the actuarial expense for both retirement liabilities to increase.

The District recognizes noncash retirement expense. As of December 31, 2018, the District recognized \$239,521 in noncash retirement expense.

Total assets for the year ending December 31, 2018 were \$3,974,265 or a decrease of 0.13% while total liabilities were \$1,625,113 or an increase of 2.81%. Assets decreased due to depreciation exceeding the capital assets placed in service during the year. Liabilities increased due to the addition of the Net OPEB liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of management's discussion and analysis, financial statements, and supplementary information. The financial statements include notes, which explain in detail some of the information included in the financial statements.

The financial statements present the financial position of the Jonathan Creek Water District as of December 31, 2018 and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

The revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position. This statement measures the success of Jonathan Creek Water District's operations over the past year.

**Jonathan Creek Water District
Management's Discussion and Analysis
December 31, 2018**

Jonathan Creek Water District
Summary of Net Position
December 31, 2018 and 2017

	2018	Restated 2017
Assets:		
Total current assets	\$ 283,922	\$ 258,176
Net capital assets	<u>3,690,343</u>	<u>3,721,088</u>
Total assets	<u>3,974,265</u>	<u>3,979,264</u>
Deferred outflows	<u>269,373</u>	<u>212,906</u>
Liabilities:		
Total current liabilities	373,309	368,389
Total long-term liabilities	<u>1,251,804</u>	<u>1,212,240</u>
Total liabilities	<u>1,625,113</u>	<u>1,580,629</u>
Deferred inflows	<u>73,099</u>	<u>-</u>
Net Position:		
Invested in capital asses, net of related debt	3,050,637	2,920,896
Unrestricted	<u>(505,211)</u>	<u>(309,355)</u>
Total net position	<u>\$ 2,545,426</u>	<u>\$ 2,611,541</u>

The Net Position for the year ending December 31, 2018 decreased \$66,115 or approximately 2.53% from the previous year. This decrease was due to an increase in total liabilities and operating expenses exceeded operating revenue.

Jonathan Creek Water District
Summary of Changes in Net Position
December 31, 2018 and 2017

	2018	Restated 2017
Total operating revenues	\$ 1,032,292	\$ 902,010
Total operating expenses	<u>1,192,226</u>	<u>1,080,045</u>
Operating income	(159,934)	(178,035)
Total Nonoperating revenues (expense)	<u>(28,373)</u>	<u>(17,745)</u>
Income (Loss) before capital contributions	(188,307)	(195,780)
Capital contributions	<u>122,192</u>	<u>32,650</u>
Change in net position	(66,115)	(163,130)
Net position, beginning of year, restated	<u>2,611,541</u>	<u>2,774,671</u>
Net position, end of year	<u>\$ 2,545,426</u>	<u>\$ 2,611,541</u>

**Jonathan Creek Water District
Management's Discussion and Analysis
December 31, 2018**

The largest portion of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. This represents 4.44% increase from the prior year.

The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, consumers and creditors.

CAPITAL ASSET CHANGE

Capital Assets for the year ending December 31, 2018 were \$3,690,343, which was a net increase of \$30,745 or 0.83% due to depreciation exceeding the cost of assets placed in service during the year.

BUDGETARY HIGHLIGHTS

The Jonathan Creek Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised.

DEBT ADMINISTRATION

At December 31, 2018, the District had \$639,706 in a line-of-credit and loans outstanding. The District incurred \$28,440 in interest expense associated with long term debt. Principal payments on loans amounted to \$178,838 for the year.

REQUEST FOR INFORMATION

This analysis is designed to provide a general overview of the Jonathan Creek Water District's finances and to demonstrate the Jonathan Creek Water District's accountability for the funds it receives whether from water sales or construction proceeds. If you have any questions about this report or need any additional information, please contact the Jonathan Creek Water District at 7564 U.S. Highway 68 E, Benton, Kentucky, 42025 or by telephone at (270) 354-8474.

JONATHAN CREEK WATER DISTRICT
Statement of Net Position
December 31, 2018

Assets

Current Assets

Cash	\$ 53,786
Accounts Receivable - customer (less allowance of \$6,961)	136,216
Inventory	78,350
Prepaid Expenses	15,570
Total Current Assets	283,922

Capital Assets

Land	16,225
Utility Plant in Service	8,020,292
Accumulated Depreciation and Amortization	(4,346,174)
Net Capital Assets	3,690,343
Total Non-current Assets	3,690,343

Total Assets	\$ 3,974,265
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Deferred outflows of resources related to pension and OPEB	\$ 269,373
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JONATHAN CREEK WATER DISTRICT
Statement of Net Position – Concluded
December 31, 2018

Liabilities

Current Liabilities

Accounts payable	\$ 21,215
Other accrued liabilities	24,278
Total Current Liabilities	<u>45,493</u>

Liabilities Payable from Restricted Assets

Current maturities of long-term debt	279,089
Customer deposits	48,727
Total Liabilities Payable from Restricted Assets	<u>327,816</u>

Long-term Liabilities

Net pension liability	663,355
Net OPEB liability	227,832
Long-term debt, less current maturities	360,617
Total Long-Term Liabilities	<u>1,251,804</u>

Total Liabilities \$ 1,625,113

Deferred inflows of resources related to pension and OPEB \$ 73,099

Net Position

Net Position

Invested in capital assets, net of related debt	3,050,637
Unrestricted	<u>(505,211)</u>

Total Net Position \$ 2,545,426

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

JONATHAN CREEK WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2018

Operating revenues:

Water sales	\$ 1,014,525
Penalty collections	16,255
Other	1,512
Total operating revenues	<u>1,032,292</u>

Operating expenses:

Pumping	130,065
Purification	14,763
Distribution	250,447
General & administration	617,292
Depreciation	179,659
Total operating expenses	<u>1,192,226</u>
Operating income	<u>(159,934)</u>

Non-operating revenue (expenses):

Interest revenue	67
Interest expense	<u>(28,440)</u>
Total non-operating revenue (expenses)	<u>(28,373)</u>

Income/(loss) before capital contributions	<u>(188,307)</u>
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Capital Contributions:

Tap fee revenue	28,000
Marshall County Fiscal Court	94,192
Total capital contributions	<u>122,192</u>

Change in net position	(66,115)
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Net Position:

Beginning of year, restated	<u>2,611,541</u>
End of year	<u>\$ 2,545,426</u>

JONATHAN CREEK WATER DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities:	
Cash receipts from customers	\$ 1,032,292
Cash payments to suppliers for goods and services	(426,027)
Cash payments to employees for services	<u>(371,285)</u>
Net cash provided (used) by operating activities	<u>234,980</u>
 Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(178,838)
Proceeds from long-term debt	18,352
Interest paid on long-term debt	(28,440)
Additions to capital assets	(148,915)
Capital contributions	<u>122,192</u>
Net cash provided (used) in financing activities	<u>(215,649)</u>
 Cash flows from investing activities:	
Interest income	<u>67</u>
Net cash provided (used) in investing activities	<u>67</u>
 Net increase (decrease) in cash and cash equivalents	
	19,398
Cash and cash equivalents, beginning of year	<u>34,388</u>
Cash and cash equivalents, end of year	<u><u>\$ 53,786</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (159,934)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	179,659
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,464)
(Increase) decrease in inventory	175
(Increase) decrease in prepaid expenses	(2,058)
(Increase) decrease in deferred outflows	(56,467)
Increase (decrease) in net pension and OPEB liability	222,889
Increase (decrease) in deferred inflows	73,099
Increase (decrease) in accounts payable	(31,641)
Increase (decrease) in accrued expenses	5,556
Increase (decrease) in customer deposits	<u>8,166</u>
Net cash provided (used) by operating activities	<u><u>\$ 234,980</u></u>

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

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 1 – Description of Entity and Summary of Significant Accounting Policies

Organization

The Jonathan Creek Water District was organized to provide water service to the residents of Benton, Kentucky and the surrounding areas. The District is governed by a five member Board, appointed by the County Judge of Marshall County.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Receivables

The District uses an allowance of uncollectable accounts method to account for bad debts. Accounts receivable is shown net of this allowance. The allowance is based on past history and management’s analysis of the current accounts. At December 31, 2018, the allowance for uncollectable accounts was \$6,961.

Capital Assets

The utility plant in service is stated at cost. The cost of additions to the utility plant and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The District has re-evaluated its estimated useful lives of assets and as a result, most assets have a longer useful life. This change will cause depreciation to be less in the current year. Depreciation expense for the year ending December 31, 2018 was \$179,659.

The estimated useful lives of capital assets are as follows:

Utility plant	20-62.5 years
Equipment	5-13 years

Cash and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

Operating Revenues and Expenses

Operating revenues consist of those revenues that result from the ongoing principal operations of the District. Operating expenses consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are payments received from customers for tap fees.

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Inventory

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capital addition as inventory items are consumed.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Accumulated paid time off amounts are accrued when benefits vest to employees and the unpaid liability is reflected in accrued liabilities. On each employee anniversary date, they will receive their allotted number of paid time off hours based on years of service. Any employee who does not use all hours before their next anniversary date, may carry forward a maximum of 5 (five) days and will be paid out any remaining unused hours.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Concluded

Pension and OPEB

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.ky.gov. KRS prepares its financial statements in accordance with GASB statements and generally accepted accounting principles. The accrual basis of accounting is used for all funds. Contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

Changes of Accounting Principle

Effective July 1, 2017, the Commission was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (GASB 75). GASB 75 replaced the requirements of GASB 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" and GASB 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employers Plans, for OPEB", as they relate to governments that provide other postemployment benefits through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB benefits as a liability to more comprehensively and comparably measure the annual costs of OPEB benefits. Cost-sharing governmental employers, such as the Commission, are required to report a net OPEB liability, OPEB expense and OPEB-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 75 required retrospective application. Since the Commission only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. See Note 9 for the impact of the adoption of this standard on beginning net position.

Note 2 – Cash and Investments

The carrying amount of the District's cash deposits was \$53,786 year ending December 31, 2018 and the bank balance, was \$60,290. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. All deposits are held at Community Financial Services Bank. All deposits are insured under FDIC.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 3 – Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	For the Year Ended December 31, 2018			
	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and Rights	\$ 16,225	\$ -	\$ -	\$ 16,225
Total Non-Depreciable Capital Assets	<u>16,225</u>	<u>-</u>	<u>-</u>	<u>16,225</u>
<i>Capital Assets being depreciated:</i>				
Transmission & Distribution Main	4,588,322	101,318	-	4,689,640
Transportation Equipment	103,836	-	-	103,836
Distribution Reservoirs	700,034	-	-	700,034
Commercial Equipment	108,403	-	-	108,403
Hydrants	83,166	-	-	83,166
Meters & Meter Installation	609,448	44,283	(44,000)	609,731
Pumping Equipment	357,304	-	-	357,304
Water Treatment Equipment	381,034	3,314	-	384,348
Tools, Shop, Garage	24,884	-	-	24,884
Office Furniture & Equipment	33,402	-	-	33,402
Misc. Equipment Assets	193,934	-	-	193,934
Power Operated Equipment	434,072	-	-	434,072
Communication Equipment	1,958	-	-	1,958
Structures & Improvements	43,486	-	-	43,486
Wells and Springs	170,641	-	-	170,641
Services	75,751	-	-	75,751
Organization	5,702	-	-	5,702
Total Capital Assets being depreciated	<u>7,915,377</u>	<u>148,915</u>	<u>(44,000)</u>	<u>8,020,292</u>
Less: Accumulated Depreciation for Utility plant in service	<u>(4,210,515)</u>	<u>(179,659)</u>	<u>44,000</u>	<u>(4,346,174)</u>
Total capital assets, being depreciated net	<u>3,704,862</u>			<u>3,674,118</u>
Total Net Capital Assets	<u>\$ 3,721,087</u>			<u>\$ 3,690,343</u>

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 4 – Long-Term Debt

Long-term debt consists of the following at December 31, 2018:

Line-of-credit was used to help fund operating expenses. The interest rate of the line of credit is 5.5% and each installment borrowed is due in twenty four (24) months. The line-of-credit has a credit limit of \$400,000.	\$ 95,540
Ditch Witch Financial was used to purchase capital assets. The interest rate of the loan is 3.76% and will mature September 15, 2022. Payments of \$5,746 are due in monthly installments.	241,571
CFSB loan was used to refinance the balance of CFSB loan #1 and to purchase capital assets. The interest rate of the loan is 3.15% and will mature April 15, 2021. Payments of \$10,850 are due in monthly installments.	<u>302,595</u>
Total debt	<u>\$ 639,706</u>

Principal and interest maturities of long-term debt are as follows:

	Principal	Interest	Total
2019	\$ 279,089	\$ 15,607	\$ 294,696
2020	189,729	9,427	199,156
2021	118,967	3,616	122,583
2022	51,921	233	52,154
2023	-	-	-
	\$ 639,706	\$ 28,883	\$ 668,589

Long-term debt activities for the year ended December 31, 2018 are as follows:

	For the Year Ended December 31, 2018				
	Beginning Balance	Additions	Debt Payments and Reductions	Ending Balance	Amount due within One Year
CFSB Loan	\$ 421,115	\$ -	\$ (118,520)	\$ 302,595	\$ 122,510
Line of Credit	83,500	18,352	(6,312)	95,540	95,540
Ditch Witch Financial	295,577	-	(54,006)	241,571	61,039
	\$ 800,192	\$ 18,352	\$ (178,838)	\$ 639,706	\$ 279,089

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan

Effective July 1, 2014, the District adopted Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The District participates in the County Employees Retirement System (CERS), a cost-sharing multiple-employer retirement system administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). CERS is a defined benefit plan created by the Kentucky General Assembly. The Plan covers substantially all full-time employees. 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 adjustments are provided at the discretion of the State legislature. Benefits fully vest upon reaching 5 years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan, Continued

Contributions—Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Employer contribution rates for CERS are determined by the Board of KRS without further legislative review. The methods used to determine the employer rates for KRS are specified in Kentucky Revised Statute 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

At December 31, 2017, the District reported a liability of \$489,593 for its proportionate share of the net pension liability for CERS.

The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. As of June 30, 2017, the District's proportion was .011333% for non-hazardous-duty retirement.

For the year ended June 30, 2018, the District recognized pension expense of \$283,807. At June 30, 2018, the 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 results	\$ 823	\$ 16,839
Changes of assumptions	19,684	-
Net differences between projected and actual earnings on plan investments	52,537	44,332
Changes in proportions and differences between District Contributions and proportionate share of contributions	90,988	-
District contributions subsequent to the measurement date	<u>48,772</u>	<u>-</u>
Totals	<u>\$ 212,804</u>	<u>\$ 61,171</u>

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan, Continued

The fiscal year 2018 CERS employer contributions are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows and deferred outflows related to pensions will be amortized over five years or the actuarially determined average service life of plan participants and recognized in pension expense as follows:

For year ending <u>December 31,</u>	Net deferred <u>Outflows/(Inflows)</u>
2019	\$ 80,734
2020	30,644
2021	(8,517)
2022	-
2023	-
Total	<u>\$ 102,861</u>

Actuarial assumptions—Prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30:

	<u>2017</u>	<u>2016</u>
Inflation	2.30%	3.25%
Projected salary increases	3.05%	4.00%
Investment rate of return	6.25%	7.50%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Discount rate: The discount rate used to measure the total pension liability was 6.25% for the year ended June 30, 2017 and 7.5% for the year ended June 30, 2016.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year closed amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Comprehensive Annual Financial Report of KRS.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan, Continued

Long term rate of return: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: The discount rate determination does not use a municipal bond rate.

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	<u>2.00%</u>	1.88%
	100.00%	

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan, Concluded

Sensitivity Analysis: The following table presents the net pension liability of the District, calculated using the discount rates selected by CERS, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

	<u>1% Discount</u>	<u>Current Discount rate</u>	<u>1% Increase</u>
CERS - Non-hazardous	5.25%	6.25%	7.25%
District's proportionate share of the net pension liability	\$ 836,634	\$ 663,355	\$ 518,409

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report of CERS. The effect of the net pension liability on the District’s net position has been determined on the same basis used by Kentucky Retirement Systems.

Non-hazardous position employees are required to contribute 5% of gross compensation to the plan. The Board of Trustees of KRS determines the District's required contribution annually, 14.48% for the year ended June 30, 2018. For the year ended June 30, 2018, the District's total covered payroll was approximately \$485,000. The District contributed approximately \$49,000 and employees contributed approximately \$18,200 to the plan.

Note 6 – Other Postemployment Benefits (OPEB)

Effective July 1, 2017, The District adopted GASB Statement 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The objective of this Statement is to address accounting and financial reporting for Other Post-Employment Benefits (OPEB) that are provided to the employees of state and local governmental employers. This Statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows or resources, and expense. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Kentucky Retirement Systems provides participants their proportionate share of the OPEB unfunded liability calculated by Gabriel, Roeder, Smith & Co (GRS) to be used in financial reports. KRS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.ky.gov.

Plan Description: The Kentucky Retirement Systems’ Insurance Fund is a cost sharing multiple-employer defined benefit Other Post-Employment Benefit plan for members that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state departments, board, agency, county, District, school board, and any additional eligible local agencies electing to participate.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 6 – Other Postemployment Benefits (OPEB), Continued

Benefits Provided: The plan was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. OPEB may be extended to beneficiaries of plan members under certain circumstances. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan.

Contributions: The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. As a result of House Bill 290, medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. See chart for current values for Dollar Contribution. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Portion Paid by Insurance Fund		Dollar Contribution for Fiscal Year 2017	
<u>Years of Service</u>	<u>Paid by Insurance Fund (%)</u>	<u>For Member participation date on or after July 1, 2003</u>	
20+ years	100.00%	<u>System</u>	(in whole dollars)
15-19 years	75.00%	KERS Non-hazardous	\$13.18
10-14 years	50.00%	KERS Hazardous	\$19.77
4-9 years	25.00%	CERS Non-hazardous	\$13.18
Less than 4 years	0.00%	CERS Hazardous	\$19.77
		SPRS	\$19.77

Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees. The fully insured premiums KRS pays for the CERS health insurance plans are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing it to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 6 – Other Postemployment Benefits (OPEB), Continued

However, the cost associated with the implicit subsidy is not currently being 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 trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The distributions from the retiree health insurance trust pay the employers’ portion of the blended premiums, not the employers’ portion of the underlying retiree claims costs. As a result, the benefit payments and contribution amounts need to include an adjustment related to the implicit subsidy. Participating employers adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes.

OPEB Plan Fiduciary Net Position: Detailed information about the Plan’s fiduciary net position is available in the separately issued KRS financial statements.

At June 30, 2018, the District reported a liability of \$227,832 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 that date. At June 30, 2017, the District’s proportionate share was .011333%.

As a result of its requirement to contribute to the Plan, the District recognized OPEB expense of \$20,743 for the year ended June 30, 2018 and reported deferred inflows and deferred outflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual results	\$ -	\$ 633
Changes of assumptions	43,097	-
Net differences between projected and actual earnings on plan investments	-	10,767
Changes in proportions and differences between District contributions and proportionate share of contributions	-	528
District contributions subsequent to the measurement date	<u>13,472</u>	<u>-</u>
Totals	<u>\$ 56,569</u>	<u>\$ 11,928</u>

The deferred outflows resulting from the District’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in expense as follows:

<u>For year ending December 31</u>	<u>Net deferred Outflows/(Inflows)</u>
2019	\$ 6,478
2020	6,478
2021	6,478
2022	9,169
2023	<u>2,566</u>
Total	<u>\$ 31,169</u>

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 6 – Other Postemployment Benefits (OPEB), Continued

Actuarial Assumptions: The total OPEB liability, net OPEB liability and sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017 using generally accepted actuarial principles. The KRS Board of Trustees adopted the following updated actuarial assumptions used in performing the actuarial valuation as of June 30, 2017:

Assumed investment return	6.25%
Inflation factor	2.30%
Payroll growth	2.00%

Mortality rates were based on the RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).

The long-term expected rate of return was determined by using a building-block method in which the 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 following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	<u>2.00%</u>	1.88%
	100.00%	

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 6 – Other Postemployment Benefits (OPEB), Concluded

Discount Rate: The single discount rates of 5.84% for Non-hazardous and 5.96% for Hazardous were used to measure the total OPEB liability as of June 30, 2017. For both hazardous and non-hazardous groups, the single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56% as reported in Fidelity Index's "20 Year Municipal GO AA Index" as of June 30, 2017. The following presents the District's proportionate share of the net OPEB liability if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS - Nonhazardous	4.84%	5.84%	6.84%
District's proportionate share of the net OPEB liability	\$ 289,904	\$ 227,832	\$ 176,179

Healthcare Trend Rate: The initial trend rate for participants under 65 years of age starts at 7.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 5 years. For those over 65 years of age the trend rate starts at 5.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 2 years. The following table presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rate:

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS - Nonhazardous	4.84%	5.84%	6.84%
District's proportionate share of the net OPEB liability	\$ 174,759	\$ 227,832	\$ 296,824

Note 7 – Deferred Inflows/Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has a balance of \$269,373 as of December 31, 2018.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has a balance of \$73,099 as of December 31, 2018.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 8- Subsequent Events

Management has evaluated subsequent events through April 17, 2019, the date which the financial statements were available to be issued.

Note 9 - Restatement

Net position as of July 1, 2017 has been adjusted for a change in accounting principle to recognize the Net OPEB liability as required by GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*. The effect of this change was a decrease of \$178,705 to beginning net position.

Net position as originally reported	\$ 2,790,246
Net OPEB liability	<u>(178,705)</u>
Net position, restated	<u>\$ 2,611,541</u>

Required Supplementary Information

JONATHAN CREEK WATER DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability - CERS
For the Last Ten Years Ended

	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
District's portion of the net pension liability	0.011333%	0.009940%	0.006920%	0.006620%
District's proportionate share of net pension liability	\$ 663,355	\$ 489,593	\$ 297,444	\$ 284,772
District's covered-employee payroll	\$ 324,982	\$ 341,265	\$ 240,844	\$ 201,612
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	204.12%	143.46%	123.50%	141.25%
Plan fiduciary net position as a percentage of the total pension liability	53%	56%	60%	67%

** Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

JONATHAN CREEK WATER DISTRICT
Schedule of District's Contributions to the Net Pension Liability - CERS
For the Last Ten Years Ended

	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Contractually required contribution	\$ 48,772	\$ 63,974	\$ 44,324	\$ 34,602
Contributions in relation to the contractually required contribution	<u>(48,772)</u>	<u>(63,974)</u>	<u>(44,324)</u>	<u>(34,602)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered-employee payroll	 \$ 324,982	 \$ 341,265	 \$ 240,844	 \$ 201,612
Contributions as a percentage of covered-employee payroll	15.01%	18.75%	18.40%	17.16%

**Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

Notes to the Required Supplementary Information

Changes of Benefit Terms: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

Changes of Assumptions: Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30 2017. Specifically, the total OPEB liability as of June 30, 2017 was determined using a 2.3% price inflation assumption and an assumed rate of return of 6.25%.

JONATHAN CREEK WATER DISTRICT
Schedule of District's Proportionate Share of the Net OPEB Liability - CERS
For the Last Ten Years Ended

		<u>December 31, 2018</u>
District's proportion of the net OPEB liability		0.011333%
District's proportionate share of the net OPEB liability	\$	227,832
District's covered-employee payroll	\$	324,982
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		70.11%
Plan fiduciary net position as a percentage of the total OPEB liability		59%

** Schedule is intended to show information for ten years.
 Additional years will be displayed as they become available.

JONATHAN CREEK WATER DISTRICT
Schedule of District's Contributions to the Net OPEB Liability - CERS
For the Last Ten Years Ended

	December 31, 2018
Contractually required contribution	\$ 16,257
Contributions in relation to the contractually required contribution	(16,257)
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 324,982
Contributions as a percentage of covered-employee payroll	5.00%

** Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

Notes to the Required Supplementary Information

Changes of Benefit Terms: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

Changes of Assumptions: Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30 2017. Specifically, the total OPEB liability as of June 30, 2017 was determined using a 2.3% price inflation assumption and an assumed rate of return of 6.25%.

Supplementary Information

JONATHAN CREEK WATER DISTRICT
Schedule of Operating Expenses
For the Year Ended December 31, 2018

Pumping:	
Operations and maintenance:	
Labor	\$ 47,866
Payroll tax	3,949
Insurance	1,291
Fuel	12,851
Power	54,143
Building maintenance	2,155
Equipment maintenance	6,750
Other	1,060
	<u>\$ 130,065</u>
Purification:	
Chemicals	\$ 14,763
	<u>\$ 14,763</u>
Distribution:	
Operations and maintenance:	
Labor	\$ 168,021
Payroll tax	16,378
Insurance	20,203
Maintenance:	
Buildings	8,710
Meters and services	10,282
Hydrants and lines	1,839
Truck expense	5,562
Cell phone expense	2,851
Other	16,601
	<u>\$ 250,447</u>
General & administration:	
Board member salaries	\$ 27,041
Office salaries	128,357
Office supplies and expenses	14,463
Utilities	13,582
Insurance	3,462
Employees' insurance	46,191
Pension expense	65,030
Actuarial difference in pension expense	239,521
Taxes and licenses	10,826
Bad debts	8,991
Professional fees	23,967
Water billing service	21,510
Uniforms	3,185
Travel and trainings	2,830
Miscellaneous	8,336
	<u>\$ 617,292</u>
Total operating expenses	<u>\$ 1,012,567</u>
(exclusive of depreciation and amortization)	

JONATHAN CREEK WATER DISTRICT
Schedule of Water Rates in Force
For the Year Ended December 31, 2018

As of December 31, 2018

\$6.54 per every 1,000 gallons of water plus the base charge

<u>Residential rate schedule</u>	<u>Base</u>
Residential 5/8"	\$ 6.96
Residential 1"	\$ 13.45
Residential 1 1/2"	\$ 24.29
Residential 2"	\$ 37.28
Residential 3"	\$ 67.61
Residential 6"	\$ 219.22

<u>Commercial rate schedule</u>	
Commercial 5/8"	\$ 6.96
Commercial 1"	\$ 13.45
Commercial 1 1/2"	\$ 24.29
Commercial 2"	\$ 37.28
Commercial 3"	\$ 67.61
Commercial 6"	\$ 219.22

JONATHAN CREEK WATER DISTRICT
Schedule of Current Year Findings and Responses, Concluded
For the Year Ended December 31, 2018

2018-001

Condition:

During the audit, it was noted that the District implemented the water rate increase before the effective date under KRS 278.160.

Criteria:

Under KRS 278.160, requires that no utility shall charge, demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules.

Cause:

The District implemented their new rates after the PSC order dated December 21, 2017; however the billing were for services rendered before such date.

Effect:

The District has implemented new water rates before the effective date set by the Public Service Commission which is an issue of noncompliance.

Recommendations:

We recommend that the District issue a credit of the difference between the new rate enforced and the rate that should have been applied to the December 2017 bills.

Response:

The District is in the process of calculating the amount over billed per customer and will issue a credit to their account.

JONATHAN CREEK WATER DISTRICT
Schedule of Prior Year Findings and Responses
For the Year Ended December 31, 2018

Prior Year Findings

Reference number 2017-001

Prior year condition:

While performing our audit procedures of the District, it was noted that the District assumed a liability without proper approval as outlined under KRS 278.300 statute.

Current year condition:

There were no issues of noncompliance noted in the current year.

Reference number 2017-002

Prior year condition:

During the audit, it was noted that board members are not signing checks they approve.

Current year condition:

The status of this prior year finding has been corrected.

Reference number 2017-003

Prior year condition:

During the audit, it was noted that the manager was reviewing employee timesheets; however, he was also an hourly employee but his timesheet was not reviewed. Also, the manager is reviewing timesheets of a related party.

Current year condition:

The status of this prior year finding has been corrected.



Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Ryan A. Mosier, CPA ▪ Jenna B. Glass, CPA ▪ Van Shepard, CPA

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

Jonathan Creek Water District
Benton, 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 Jonathan Creek Water District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Jonathan Creek Water District's basic financial statements, and have issued our report thereon dated April 17, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Jonathan Creek 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items: 2018-001.

Jonathan Creek Water District's Response to Findings

Jonathan Creek Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Jonathan Creek Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
April 17, 2019

