

LEDBETTER WATER AND SEWER DISTRICT
FINANCIAL STATEMENTS WITH
ACCOMPANYING INFORMATION
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANT
As of and for the year ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Management and District Board
Ledbetter Water & Sewer District
Ledbetter, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Ledbetter Water & Sewer District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing 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 Ledbetter Water & Sewer District, as of December 31, 2017, and the respective changes in modified cash basis financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules on pages 3-6 and 23-25 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 Ledbetter Water & Sewer District's basic financial statements. The budgetary comparison information on pages 26-27, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2019, on our consideration of the Ledbetter Water & Sewer 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 Ledbetter Water & Sewer District's internal control over financial reporting and compliance.

Kemper CPA Group, LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
June 6, 2019

LEDBETTER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

The Ledbetter Water and Sewer District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2017. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of the District exceeded its liabilities and deferred inflows by \$614,213 at December 31, 2017. Of this amount \$218,832 is restricted for debt service and \$782,401 is invested in capital assets net of the related debt, leaving unrestricted net position of (\$387,020).

The District's net position decreased for the year by \$82,165.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Ledbetter Water and Sewer District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The District's basic financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. In addition, this report contains other supplementary information to provide the reader additional information about the District.

Fund Financial Statements - The focus of fund financial statements is directed to specific activities of a governmental entity rather than the entity as a whole. The District, like other state and local governments, uses fund accounting. All activities of the District are reported in the enterprise fund, a proprietary fund type.

Because the District consists of only a proprietary fund, government-wide financial statements are not necessary.

The basic proprietary fund financial statements can be found on pages 6-7 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 10-25 of this report.

Required Supplementary Information – Required supplementary information can be found on pages 27-29 of this report.

Other Supplementary Information – Other Supplementary information can be found on pages 31-32 of this report.

LEDBETTER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's assets and deferred outflows exceeded liabilities and deferred inflows by \$614,213 at December 31, 2017. That represents a decrease of \$82,165 over the restated net position from December 31, 2016 of \$699,765. Net position at December 31, 2017 was restated for a variety of items as explained in the notes to the financial statements (Note 11).

During 2017, the District's net capital assets decreased \$106,036. This reduction is mainly due to depreciation for the year. Total noncurrent liabilities decreased by \$81,109. The amount of principal repaid during 2017 was \$142,194. There was no new debt during 2017.

The District's overall financial position and results of operations for the past two years are summarized as follows, based on the information included in the financial statements.

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Assets:		
Current assets	\$ 542,527	\$ 373,166
Other Non-current assets	2,857,952	3,195,251
Total assets	<u>3,400,479</u>	<u>3,568,417</u>
 Deferred Outflows Related to Pensions	 <u>124,839</u>	 <u>85,899</u>
 Liabilities:		
Current liabilities	452,404	419,673
Non-current liabilities	2,430,753	2,511,862
Total liabilities	<u>2,883,157</u>	<u>2,931,535</u>
 Deferred Inflows Related to Pensions	 <u>27,944</u>	 <u>26,403</u>
 Net position:		
Net investment in capital assets	782,401	742,763
Restricted	218,832	260,558
Unrestricted	(387,020)	(306,943)
Total net position	<u>\$ 614,213</u>	<u>696,378</u>
 Prior Period Adjustments		 3,377
 Restated net position at December 31, 2016		 <u>\$ 699,755</u>

LEDBETTER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

	Governmental Activities	
	2017	2016
Operating revenue	\$ 841,310	\$ 865,763
Operating expenses	898,757	894,129
Operating income (loss)	(57,447)	(28,366)
Non-operating revenue and expense	(53,281)	(40,674)
Capital contributions	25,186	-
Change in net position	(85,542)	(69,040)
Net position, beginning of year, restated See Note 11	699,755	765,418
Net position, end of year	\$ 614,213	\$ 696,378

A portion of the District's net position (\$782,401) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers, consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

BUDGETARY HIGHLIGHTS

	Final Budgets	Actual	Variance Positive Negative
Operating Revenues	\$ 875,067	\$ 841,310	\$ (33,757)
Operating Expenses	853,370	898,757	\$ (45,387)
Non-operating Revenues	24,511	25,465	954
Non-operating Expenses	46,208	53,560	(7,352)
Total Negative Variance			\$ (85,542)

LEDBETTER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2017 was \$2,857,952. The District acquired assets totaling \$39,983 during 2017. The district had no disposal of assets during 2017.

	2017	2016
Construction in progress	\$ 146,800	\$ 136,957
Land	101,340	101,340
Buildings	766,206	766,206
Machinery	76,115	76,115
Plant & equipment	5,296,032	5,256,049
Furniture & fixtures	22,219	22,219
Total capital assets	<u>6,408,712</u>	<u>6,358,886</u>
Less accumulated depreciation	<u>(3,550,760)</u>	<u>(3,394,898)</u>
Total capital assets, net	<u>\$ 2,857,952</u>	<u>\$ 2,963,988</u>

LONG-TERM DEBT

The District's long-term debt at December 31, 2017 was \$2,079,032. A schedule of the District's long-term debt at December 31, 2017 follows:

	2017	2016
Revenue Bond Series 1978	\$ 20,000	\$ 20,000
KIA loan	1,009,747	1,121,941
KACO loan	1,049,285	1,079,285
Total long-term debt	<u>\$ 2,079,032</u>	<u>\$ 2,221,226</u>

CURRENTLY KNOWN FACTS, DECISIONS, CONDITIONS:

The District is currently involved in litigation as described in the notes to the financial statements (Note 13).

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Ledbetter Water and Sewer District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Billy Downs, Superintendent, Ledbetter Water and Sewer District, 1483 US Highway 60, Ledbetter, KY 42058.

Ledbetter Water and Sewer District
Statement of Net Position - Proprietary Funds
December 31, 2017

	Water	Sewer	Total
Assets			
Cash and cash equivalents	\$ 21,574	\$ 2,923	\$ 24,497
Accounts receivable	34,011	32,051	66,062
Prepaid expenses	4,036	4,036	8,072
Inventory	13,250	1,742	14,992
Due from sewer	186,069	-	186,069
Restricted cash	230,770	12,065	242,835
Total current assets	489,710	52,817	542,527
Non-current assets:			
Capital assets:			
Non-Depreciable	138,640	109,500	248,140
Depreciable, net of accumulated depreciation	609,805	2,000,007	2,609,812
Non-current assets	748,445	2,109,507	2,857,952
Total assets	1,238,155	2,162,324	3,400,479
Deferred Outflows of Resources			
Deferred outflows related to pensions	67,413	57,426	124,839
Total deferred outflows	67,413	57,426	124,839
Liabilities			
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable	12,274	6,760	19,034
Other current liabilities	19,533	18,315	37,848
Accrued interest payable	-	1,745	1,745
Due to water	-	186,069	186,069
Current maturities of long-term debt	20,000	142,194	162,194
Tenant deposits payable	22,024	23,490	45,514
Total current liabilities	73,831	378,573	452,404
Noncurrent liabilities:			
Lease payable	-	1,019,285	1,019,285
Notes payable	-	897,553	897,553
Net pension liability	277,517	236,403	513,920
Total noncurrent liabilities	277,517	2,153,241	2,430,758
Total liabilities	351,348	2,531,814	2,883,162
Deferred Inflows of Resources			
Deferred inflows related to pensions	15,090	12,854	27,944
Total deferred inflows	15,090	12,854	27,944
Net Position			
Net investment in capital assets	731,926	50,475	782,401
Restricted for debt service	206,767	12,065	218,832
Unrestricted	437	(387,457)	(387,020)
Total net position	\$ 939,130	\$ (324,917)	\$ 614,213

The accompanying notes are an integral part of the financial statements

Ledbetter Water and Sewer District
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Year Ended December 31, 2017

Operating Revenues	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Charges for services	<u>\$ 438,106</u>	<u>\$ 403,204</u>	<u>\$ 841,310</u>
Total operating revenue	<u>438,106</u>	<u>403,204</u>	<u>841,310</u>
Operating Expenses			
Water purchases	93,360	-	93,360
Payroll expenses	192,196	188,892	381,088
Treatment expenses	51,155	94,989	146,144
Maintenance expenses	8,902	19,187	28,089
General operating expenses	56,305	34,531	90,836
Depreciation	40,866	118,374	159,240
Total operating expenses	<u>442,784</u>	<u>455,973</u>	<u>898,757</u>
Operating income (loss)	<u>(4,678)</u>	<u>(52,769)</u>	<u>(57,447)</u>
Nonoperating Revenue (Expenses)			
Interest revenue	222	57	279
Interest expense	<u>(504)</u>	<u>(53,056)</u>	<u>(53,560)</u>
Total nonoperating expenses	<u>(282)</u>	<u>(52,999)</u>	<u>(53,281)</u>
Capital Contributions			
Capital Grant	17,786	-	17,786
Tap-on fees	<u>3,400</u>	<u>4,000</u>	<u>7,400</u>
Total capital contributions	<u>21,186</u>	<u>4,000</u>	<u>25,186</u>
Change in net position	<u>16,226</u>	<u>(101,768)</u>	<u>(85,542)</u>
Net position, beginning of year	932,205	(235,827)	696,378
Prior period adjustment - See Note 11	<u>(9,301)</u>	<u>12,678</u>	<u>3,377</u>
Net position, beginning of year, restated	<u>922,904</u>	<u>(223,149)</u>	<u>699,755</u>
Net position, end of year	<u>\$ 939,130</u>	<u>\$ (324,917)</u>	<u>\$ 614,213</u>

Ledbetter Water and Sewer District
Statement of Cash Flows-Proprietary Funds
For the Year Ending December 31, 2017

	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 439,199	\$ 403,019	\$ 842,218
Cash payments to suppliers for goods and services	(220,935)	(134,963)	(355,898)
Cash payments to employees for services	(169,031)	(164,111)	(333,142)
Net cash provided (used) by operating activities	<u>49,233</u>	<u>103,945</u>	<u>153,178</u>
Cash flows from capital and related financing activities:			
Capital Grant	17,786	-	17,786
Tap-on fees	3,400	4,000	7,400
Acquisition and construction of property, plant and equipment	(26,679)	(23,148)	(49,827)
Principal payments on long-term debt	-	(142,194)	(142,194)
Interest on long-term debt	(504)	(53,056)	(53,560)
Net cash provided (used) for capital and related financing activities	<u>(5,997)</u>	<u>(214,398)</u>	<u>(220,395)</u>
Cash flows from investing activities:			
Interest on investments	222	57	279
Net cash provided (used) by investing activities	<u>222</u>	<u>57</u>	<u>279</u>
Net increase (decrease) in cash and cash equivalents	<u>43,458</u>	<u>(110,396)</u>	<u>(66,938)</u>
Cash and cash equivalents, beginning of year	<u>208,886</u>	<u>125,384</u>	<u>334,270</u>
Cash and cash equivalents, end of year	<u>\$ 252,344</u>	<u>\$ 14,988</u>	<u>\$ 267,332</u>
Reconciliation to Statement of Net Position			
Cash and cash equivalents-current	\$ 21,574	\$ 2,923	24,497
Restricted cash	230,770	12,065	242,835
	<u>\$ 252,344</u>	<u>\$ 14,988</u>	<u>\$ 267,332</u>
Reconciliation of Operating Income to Net Cash Provided by Operations			
Operating income	\$ (4,678)	\$ (52,769)	\$ (57,447)
Adjustments-operating activities			
Depreciation and amortization	40,866	118,374	159,240
(Increase) decrease in:			
Accounts receivable	1,093	(185)	908
Prepaid expenses	(154)	(154)	(308)
Inventory	(1,678)	708	(970)
Due from other funds	(4,666)	-	(4,666)
Deferred outflows	(39,571)	(33,714)	(73,285)
Increase (decrease) in:			
Accounts payable	(12,357)	(305)	(12,662)
Customer deposits	7,642	8,399	16,041
Interest payable	-	430	430
Other current liabilities	(432)	4,688	4,256
Due to other funds	-	4,666	4,666
Net pension liability	43,789	37,301	81,090
Deferred inflows	19,379	16,506	35,885
Net cash provided by operating activities	<u>\$ 49,233</u>	<u>\$ 103,945</u>	<u>\$ 153,178</u>

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity - The Ledbetter Water and Sewer District is a utility district organized on January 7, 1964, and supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes 65.005 and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Ledbetter, Kentucky and primarily serves the Ledbetter and Western Livingston County, Kentucky area.

Principles determining scope of reporting entity - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board. The governing body of the district is made up of four commissioners and a secretary-treasurer, which as a group, has decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of accounting - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the grantor have been met.

The District follows all pronouncements of the Government Accounting Standards Board. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and sewer services. Operating expenses for enterprise funds include the cost of sales 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. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District's policy is to consider restricted resources to have been depleted before unrestricted resources are applied.

Accounts receivable - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed. The effect of this method does not differ significantly from the use of the allowance method required by generally accepted accounting principles.

Inventory - The District reports inventory at the lower of cost or market on a first-in first-out basis.

Utility plant - The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. The utility does not have a specific capitalization threshold. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

	<u>Years</u>
Utility plant	35-50
Office furnishings and equipment	5-10

Use of estimates - The 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.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Restricted/Unrestricted Net Position – When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District's policy is to consider restricted net position to have been depleted before unrestricted net position is applied.

Revenue Recognition - Operating revenues are recognized in the period that water is supplied to participants and others. All other revenues are reflected in non-operating income and are recognized when earned.

Taxes on income - The Ledbetter Water and Sewer District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

Budget – The District adopts an annual budget prepared under the basis of accounting utilized in the financial statements.

Cash and cash equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

Capital Contributions- Contributions in aid of construction are derived from two main sources; 1) developers, when they construct and pay for water lines and then donate these additions to the District; and 2) other governments, in the form of grant contributions for property, plant, or equipment. Developer contributions are recorded at the developer's cost and are depreciated over their estimated useful lives using the straight-line method. Grant proceeds are recorded as increases to unrestricted net position, and when expended on fixed assets, the costs are depreciated over their useful lives using the straight line method.

Due to and Due from Other Funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. The balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. As of December 31, 2017, the Sewer fund owed the Water fund \$186,069.

Deferred Outflows and Inflows of Resources –In addition to liabilities, assets and net position, the statement of net position will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows and inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an expenditure or revenue, respectively until that time. The Statement of Net Position reports deferred outflows and inflows related to pension requirements.

Pension - 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 in the Kentucky Retirement Systems (KRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the KRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the County Employees Retirement System. Investments are reported at fair value. See Note 6 for pension disclosure information.

2 RESTRICTED CASH AND INVESTMENTS

Sinking Funds - The Ledbetter Water Bond & Interest Sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2017 the balance of the Water Sinking Fund was \$68,584.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

2 RESTRICTED CASH AND INVESTMENTS (continued)

The Ledbetter Sewer Bond & Interest Sinking Fund was established for the purpose of paying the principal and interest on the KIA Loan due in June and December. At December 31, 2017 the balance of the Sewer Sinking Fund was \$4,384.

Water Depreciation Reserve – The Ledbetter Water Depreciation Reserve account was established to satisfy the bond ordinances requiring the District to make monthly contributions after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Reserve Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. The District is to maintain a \$35,100 minimum throughout the life of the bonds. At December 31, 2017 the balance of the Depreciation Reserve Fund was \$110,360, the balance of the Depreciation Checking Account was \$23,772, the balance of the Certificate of Deposit – Reserve was \$27,823, and the balance for the Construction Account was \$231 for a total of \$162,186.

Sewer Depreciation Reserve - The Ledbetter Sewer Depreciation Reserve account required by Kentucky Infrastructure Authority requires an annual transfer of \$22,000 until a balance of \$220,000 is accumulated. The balance of the Sewer Depreciation Reserve account at December 31, 2017 was \$7,681.

3 DEPOSITS

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the enterprise fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the district, includes disclosure of the following risks:

- Risks related to custodial credit risk of deposits;
- Deposit and investment policies related to those risks.

Custodial Credit Risk is the risk that in the event of a failure of a depository institution, the district will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2017, the carrying amount of District's deposits was \$267,332 and the bank balance of \$278,667 was categorized as follows:

Insured by FDIC	\$	272,243
Uninsured and collateralized with securities held by the pledging financial institution in the district's name		6,424
Total	\$	<u>278,667</u>

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

3 DEPOSITS (continued)

The district does not have deposit and investment policies. However, Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

1. Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
2. Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
3. Savings and loan associations insured by the U. S. government;
4. Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U. S. government;
5. Deposit accounts with banking institutions;
6. State treasurer investment pool.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

4 CAPITAL ASSETS

Capital asset activity for Ledbetter Water and Sewer District for the year ended December 31, 2017, was as follows:

Water:	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital assets not being depreciated:				
Construction in progress	\$ 125,317	\$ 9,843	\$ -	\$ 135,160
Land	3,480	-	-	3,480
Total capital assets not being depreciated	<u>128,797</u>	<u>9,843</u>	<u>-</u>	<u>138,640</u>
Capital assets being depreciated:				
Electric Pump Equipment	58,407	747		59,154
General Plant	51,861	-	-	51,861
Hydrants	27,940	2,640	-	30,580
Mains	525,310	-	-	525,310
Meter Installations	14,405	-	-	14,405
Meter	74,930	10,048	-	84,978
Office Furniture	22,219	-	-	22,219
Other Misc Equipment	47,146	-	-	47,146
Services	69,393	3,400	-	72,793
Tanks	224,441	-	-	224,441
Tools & Shop Equipment	22,500	-	-	22,500
Vehicles & Trans Equipment	33,115	-	-	33,115
Water Treatment Equipment	35,550	-	-	35,550
Water Treatment Structure	675,743	-	-	675,743
Total capital assets being depreciated	<u>1,882,960</u>	<u>16,835</u>	<u>-</u>	<u>1,899,795</u>
Less accumulated depreciation for:				
Electric Pump Equipment	(44,732)	(1,292)	-	(46,024)
General Plant	(31,298)	(1,826)	-	(33,124)
Hydrants	(15,156)	(751)	-	(15,907)
Mains	(289,461)	(10,690)	-	(300,151)
Meter Installations	(9,451)	(289)	-	(9,740)
Meter	(33,496)	(2,412)	-	(35,908)
Office Furniture	(20,973)	(416)	-	(21,389)
Other Misc Equipment	(42,775)	(2,045)	-	(44,820)
Services	(45,578)	(1,665)	-	(47,243)
Tanks	(150,755)	(3,721)	-	(154,476)
Tools & Shop Equipment	(15,585)	(1,736)	-	(17,321)
Vehicles & Trans Equipment	(33,115)	-	-	(33,115)
Water Treatment Equipment	(24,315)	(514)	-	(24,829)
Water Treatment Structure	(492,434)	(13,509)	-	(505,943)
Total accumulated depreciation	<u>(1,249,124)</u>	<u>(40,866)</u>	<u>-</u>	<u>(1,289,990)</u>
Total capital assets being depreciated, net	<u>633,836</u>	<u>(24,031)</u>	<u>-</u>	<u>609,805</u>
Capital assets, net	<u>\$ 762,633</u>	<u>\$ (14,188)</u>	<u>\$ -</u>	<u>\$ 748,445</u>

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

4 CAPITAL ASSETS (continued)

Sewer:	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital assets not being depreciated:				
Construction in progress	\$ 11,640	\$ -	\$ -	\$ 11,640
Land	97,860	-	-	97,860
Total capital assets not being depreciated	<u>109,500</u>	<u>-</u>	<u>-</u>	<u>109,500</u>
Capital assets being depreciated:				
Buildings and Improvements	38,604	-	-	38,604
Engineering Cost	285,709	-	-	285,709
General & Office Equipment	83,216	270	-	83,486
Lines	2,480,882	20,892	-	2,501,774
Plant & Lagoons	1,188,138	1,986	-	1,190,124
Utility Assets	140,581	-	-	140,581
Vehicles	20,499	-	-	20,499
Total capital assets being depreciated	<u>4,237,629</u>	<u>23,148</u>	<u>-</u>	<u>4,260,777</u>
Less accumulated depreciation for:				
Buildings and Improvements	(19,620)	(965)	-	(20,585)
Engineering Cost	(144,555)	(7,143)	-	(151,698)
General & Office Equipment	(65,183)	(3,846)	-	(69,029)
Lines	(1,238,352)	(64,695)	-	(1,303,047)
Plant & Lagoons	(596,584)	(31,496)	-	(628,080)
Utility Assets	(57,604)	(10,229)	-	(67,833)
Vehicles	(20,498)	-	-	(20,498)
Total accumulated depreciation	<u>(2,142,396)</u>	<u>(118,374)</u>	<u>-</u>	<u>(2,260,770)</u>
Total capital assets being depreciated, net	2,095,233	(95,226)	-	2,000,007
Capital assets, net	<u>\$ 2,204,733</u>	<u>\$ (95,226)</u>	<u>\$ -</u>	<u>\$ 2,109,507</u>

Depreciation charged to income was \$159,240 during the year ending December 31, 2017 as follows:

Business-type depreciation:	
Water	\$ 40,866
Sewer	118,374
Total depreciation	<u>\$ 159,240</u>

5 LONG-TERM DEBT

Bonds

The Ledbetter Water and Sewer District Waterworks Revenue Bonds of 1978 were issued in the amount of \$359,000 for the purpose of financing the construction, extension, additions, and improvements to the existing waterworks system. Bond maturity date is 2018. The interest rate is 5%. The issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

5 LONG-TERM DEBT (continued)

The remaining bond repayment schedule is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 20,000	\$ 500	\$ 20,500
	<u>\$ 20,000</u>	<u>\$ 500</u>	<u>\$ 20,500</u>

Note Payable

The Ledbetter Water and Sewer District Kentucky Infrastructure Authority note date June 1, 2007, refinanced certain long term debt obligations of the District. The note is 0% with 40 payments. There are no discounts, premiums or fees associated with this loan. Payments are due each June and December. The note and bond repayment schedule is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 112,194	\$ -	\$ 112,194
2019	112,194	-	112,194
2020	112,194	-	112,194
2021	112,194	-	112,194
2022	112,194	-	112,194
2023-2026	448,777	-	448,777
	<u>\$ 1,009,747</u>	<u>\$ -</u>	<u>\$ 1,009,747</u>

Leases

On November 9, 2007 Livingston County entered into a refinancing of a financing obligation with Kentucky Association of Counties Leasing Trust (KACoLT) for the financing of a sewer system project for the Ledbetter Sanitation District, Livingston County, Kentucky. This capital lease is for the purpose of debt refinancing and the related assets are detailed below. The original lease was dated July 1, 2005 for \$3,300,000. During 2007, the Ledbetter Water District paid a lump sum payment of \$2,020,715. The principal amount of the refinanced lease is \$1,184,285 with repayment to be made over a thirty year period starting in November 2007. The Ledbetter Water District has pledged their revenues for repayment of the note and are repaying the note to KACoLT. The lease carries a variable interest rate of 2.863% - 5.032%. The lease required interest only payments for the first 59 months. To reduce these interest payments further, KACO increased the principal by \$109,410, and invested these funds separately to provide a return over the first 59 months of the loan to reduce the interest payable by the district. These funds were amortized over their period of use which ended in October 2012. As of December 31, 2017, the balance of the lease was \$1,049,285 and the future minimum lease principal and interest requirements for the capital lease are as follows:

<u>Year End December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 30,000	\$ 56,717	\$ 86,717
2019	35,000	54,745	89,745
2020	35,000	53,003	88,003
2021	35,000	50,986	85,986
2022	40,000	48,831	88,831
2023-2027	220,000	209,350	429,350
2028-2032	285,000	139,378	424,378
2033-2037	369,285	47,937	417,222
	<u>\$ 1,049,285</u>	<u>\$ 660,947</u>	<u>\$ 1,710,232</u>

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

5 LONG-TERM DEBT (continued)

The lease is secured by sewer distribution lines originally costing \$2,329,254 with accumulated depreciation of \$1,242,269 for a net value of \$1,086,985. Amortization of the leased asset is included in depreciation expense.

Total debt activity for the district for the year ending December 31, 2017 is as follows:

Debt Schedule:		<u>Balance 1/1/17</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/17</u>	<u>Current Portion</u>
Water	Bonds	\$ 20,000	\$ -	\$ -	\$ 20,000	\$ 20,000
Sewer	KIA	1,121,941	-	112,194	1,009,747	112,194
Sewer	KACO Lease	1,079,285	-	30,000	1,049,285	30,000
Pension	Obligation	432,830	110,911	29,821	513,920	-
		<u>\$ 2,654,056</u>	<u>\$ 110,911</u>	<u>\$ 172,015</u>	<u>\$ 2,592,952</u>	<u>\$ 162,194</u>

6 PENSION PLAN

Cost-Sharing Multiple-Employer Defined Benefit Plan

County Employees' Retirement System

Plan description- The District is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained from <http://kyret.ky.gov/>.

Benefits provided- CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, non-hazardous employees are grouped into three tiers, based on hire date:

Non-Hazardous members:

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	Minimum 5 years of service and 55 years old Minimum 25 years of service and any age
Tier 2	Participation date	September 1, 2008 to December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age 57 or older and sum of service years plus age equal 87
	Reduced retirement	Minimum 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age 57 or older and sum of service years plus age equal 87
	Reduced retirement	Not available

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

6 PENSION PLAN (continued)

Cost of living adjustments are provided at the discretion of the General Assembly. Retirements is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. 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 non-service related disability benefits.

Plan Funding—State statute requires active members to contribute % of creditable compensation based on the tier:

	<u>Non-hazardous</u>
	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

Employers contribute at the rate determined by the CERS Board to be necessary for the actuarial soundness of the system, as required by KRS 61.565 and 61.752. The District's required contribution rate was 18.68% for non-hazardous employees for the year ended June 30, 2017.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability-At December 31, 2017, the Ledbetter Water District reported a liability of \$513,920 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan during the fiscal year ended June 30, 2017, relative to the contributions of all members for the year ended June 30, 2017. At the June 30, 2017 measurement date, District's proportion was 0.00878%.

2017	2016	
Employer	Employer	Change in
Allocation	Allocation	Proportionate
<u>Percentage</u>	<u>Percentage</u>	<u>Share</u>
.00878%	.00879%	(.00001%)

Pension expense- For the year ended December 31, 2017, the District recognized a pension expense of \$71,076 in its general operating expenses.

Deferred outflows of resources and deferred inflows of resources- For the year ended December, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

6 PENSION PLAN (continued)

	Water & Sewer	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 637	\$ 13,046
Change of assumptions	94,832	-
Net difference between projected and actual earnings on plan investments	6,357	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	57	14,898
Employer contributions subsequent to the Measurement Date	22,956	-
	\$ 124,839	\$ 27,944

The amount shown for "Employer contributions subsequent to the Measurement Date" will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year 1	28,519
Year 2	34,767
Year 3	17,251
Year 4	(6,598)
Year 5	-
Thereafter	-
Total	\$ 73,939

Actuarial assumptions- In general, the assumptions and methods used in the valuation are based on the actuarial experience study for the five-year period ending June 30, 2013, submitted April 30, 2014, and adopted by the Board on December 4, 2014. The investment return, price inflation, and payroll growth assumption were adopted by the Board in May and July 2017 for use with the June 30, 2017 valuation in order to reflect future economic expectations.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

6 PENSION PLAN (continued)

Investment return rate:

Assumed annual rate of 6.25% net of investment expenses

Price Inflation:

Assumed annual rate of 2.30%

Payroll Growth Assumption (used for amortization of unfunded accrued liabilities):

Assumed annual rate of 2.00%

Mortality Assumption:

Pre-retirement mortality: RP-2000 Combined Mortality Table projected with Scale BB to 2013. Male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%.

Post-retirement mortality (non-disabled): RP-2000 Combined Mortality Table projected with Scale BB to 2013. Female mortality rates are set back one year.

Post-retirement mortality (disabled): RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013. Male mortality rates are set back four years.

These mortality assumptions assume a margin for future mortality improvement.

Actuarial Cost Method:

Entry Age Normal, Level Percentage of Pay, as required by GASB Statement No. 67. The Entry Age Normal actuarial cost method allocates the System's actuarial present value of future benefits to various periods based upon service. The portion of the present value of future benefits allocated to years of service prior to the valuation date is the actuarial accrued liability, and the portion allocated to years following the valuation date is the present value of future normal costs. The normal cost is determined for each active member as the level percent of pay necessary to fully fund the expected benefits to be earned over the career of each individual active member. The normal cost is partially funded with active member contributions with the remainder funded by employer contributions.

Changes in Assumptions since the prior valuation:

The assumed investment return has changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

Discount rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

6 PENSION PLAN (continued)

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate- The following presents the net pension liability of the District, 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%) or 1-percentage-point higher (7.25%) than the current rate for non-hazardous:

	1% Decrease (5.25%)	Discount Rate (6.25%)	1% Increase (7.25%)
Ledbetter Water and Sewer District's net pension liability	\$ 648,165	\$ 513,920	\$ 401,626

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

7 COMPENSATED ABSENCE

Employees were allowed to carry-over to the following and all subsequent years the amount of 32 hours of sick time and accumulated comp time which is accrued at time and a half. The balance of compensated absence as of December 31, 2017 was \$30,553 and was considered to be a current liability.

8 COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

9 INTEREST EXPENSE

The District incurred interest cost in 2017 for water and sewer of \$504 and \$53,056 respectively. The entire amount has been recognized as a current operating expense.

10 INTERFUND ACTIVITY

The amounts due to and from water and sewer are related to operating activity. These amounts are not expected to be repaid within one year.

11 PRIOR PERIOD ADJUSTMENT

Net position has been restated to reflect the following:

	Water	Sewer
Net position, beginning (previously reported)	\$ 932,205	\$ (235,827)
Correction of beginning accumulated depreciation	(9,301)	12,678
Net position, beginning restated	\$ 922,904	\$ (223,149)

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2017

12 CONTINGENCIES

On July 13, 2015, Ledbetter Water & Sewer district brought litigation against another water district. The litigation involves a water purchase contract dispute with another water district that is one of their suppliers of water. Currently, Ledbetter Water & Sewer District is contracted to purchase 3,000,000 gallons a month for 40 years from the other water district. Although the contract between the water districts began on January 24, 2000, Ledbetter Water & Sewer District contends the contract is void. The Livingston County Circuit Court entered a summary judgement for the Ledbetter Water and Sewer District early in 2017. The other water district has since filed an appeal from the circuit court judgement and further actions is not expected until later in 2018 or beyond. The likelihood of any change in net operating income or total net position concerning this water contract dispute is unknown at this time.

LEDBETTER WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Ledbetter Water and Sewer District
 Schedule of Proportionate Share of Net Pension Liability-County Employee Retirement System
 Last ten fiscal years

	2017	2016	2015
Total net pension liability (asset) for Employee Retirement System	\$ 5,853,307,443	\$ 4,923,618,237	\$ 4,299,525,565
Ledbetter Water and Sewer District's proportion of the net pension liability	0.00878%	0.00879%	0.009889%
Ledbetter Water and Sewer District's proportionate share of the net pension liability	\$ 513,920	\$ 432,830	\$ 425,178
Ledbetter Water and Sewer District's covered-employee payroll	\$ 213,418	\$ 209,762	\$ 226,583
Ledbetter Water and Sewer District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	240.80%	206.34%	187.65%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%

*The amounts presented were determined as of June of the fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Purpose is to provide information that serves as a surrogate for the funding progress of the plan.

Ledbetter Water and Sewer District
Schedule of Contributions - Pension Plan
County Employee Retirement System of the KRS
Last ten fiscal years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution (ADC)	\$ 31,737	\$ 28,177	\$ 27,124	\$ 30,280
Contribution in relation to the actuarially determined contribution	31,737	28,177	27,124	30,280
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ledbetter Water and Sewer District's covered-employee payroll	\$ 229,247	\$ 213,418	\$ 215,472	\$ 228,782
Contributions as a percentage of Ledbetter Water and Sewer District's covered-employee payroll	13.84%	13.20%	12.59%	13.24%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retrospectively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Ledbetter Water and Sewer District
Notes to Schedule of Contributions

The actuarially determined contribution rates effective for fiscal year ending 2017 that are documented in the schedule on the previous pages are calculated as of June 30, 2015. Based on the June 30, 2015 actuarial valuation report (produced by the prior actuary), the actuarial methods and assumptions used to calculate these contribution rates are below:

Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level Percent of Pay
Amortization Period:	28 Years, Closed
Investment Return:	7.50%
Inflation:	3.25%
Salary increases	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

LEDBETTER WATER AND SEWER DISTRICT

OTHER SUPPLEMENTARY INFORMATION

Ledbetter Water and Sewer District
Statement of Revenues, Expenses and Changes in Net Position - Water
Budget and Actual
For the Year Ending December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 435,465	\$ 435,465	\$ 438,106	\$ 2,641
Total operating revenues	<u>435,465</u>	<u>435,465</u>	<u>438,106</u>	<u>2,641</u>
Operating expenses:				
Water purchases	93,252	93,252	93,360	(108)
Salary expenses	146,602	146,602	192,196	(45,594)
Water treatment expenses	44,174	44,174	51,155	(6,981)
Maintenance expenses	11,338	11,338	8,902	2,436
General operating expenses	82,983	82,983	56,305	26,678
Depreciation	60,000	60,000	40,866	19,134
Total operating expenses	<u>438,349</u>	<u>438,349</u>	<u>442,784</u>	<u>(4,435)</u>
Operating income	<u>(2,884)</u>	<u>(2,884)</u>	<u>(4,678)</u>	<u>(1,794)</u>
Non-operating income (expenses):				
Capital Grant	-	-	17,786	17,786
Tap-on fees	4,250	4,250	3,400	(850)
Interest revenue	109	109	222	113
Interest expense	(1,475)	(1,475)	(504)	971
Total non-operating revenue (expenses)	<u>2,884</u>	<u>2,884</u>	<u>20,904</u>	<u>18,020</u>
Change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>16,226</u>	<u>\$ 16,226</u>
Net position, beginning of year, restated			922,904	
Net position, end of year			<u>\$ 939,130</u>	

See Accompanying Independent Auditor's Report.

Ledbetter Water and Sewer District
Statement of Revenues, Expenses and Changes in Net Position - Sewer
Budget and Actual
For the Year Ending December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 439,602	\$ 439,602	\$ 403,204	\$ (36,398)
Total operating revenues	<u>439,602</u>	<u>439,602</u>	<u>403,204</u>	<u>(36,398)</u>
Operating expenses:				
Salary expenses	153,464	153,464	188,892	(35,428)
Treatment expenses	65,310	65,310	94,989	(29,679)
Maintenance expenses	23,529	23,529	19,187	4,342
General operating expenses	41,414	41,414	34,531	6,883
Depreciation	116,304	116,304	118,374	(2,070)
MAF Expense	15,000	15,000	-	15,000
Total operating expenses	<u>415,021</u>	<u>415,021</u>	<u>455,973</u>	<u>(40,952)</u>
Operating income	<u>24,581</u>	<u>24,581</u>	<u>(52,769)</u>	<u>(77,350)</u>
Non-operating revenue (expense):				
MAF Reimbursement	15,000	15,000	-	(15,000)
Tap-on fees	5,000	5,000	4,000	(1,000)
Interest revenue	152	152	57	(95)
Interest expense	(44,733)	(44,733)	(53,056)	(8,323)
Total non-operating revenue (expenses)	<u>(24,581)</u>	<u>(24,581)</u>	<u>(48,999)</u>	<u>(24,418)</u>
Change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>(101,768)</u>	<u>\$ (101,768)</u>
Net position, beginning of year, restated			<u>(223,149)</u>	
Net position, end of year			<u>\$ (324,917)</u>	



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

To the Management and District Board
Ledbetter Water & Sewer District
Ledbetter, 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 governmental activities of the Ledbetter Water & Sewer District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Ledbetter Water & Sewer District's basic financial statements and have issued our report thereon dated June 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ledbetter Water & Sewer 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 Ledbetter Water & Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ledbetter Water & Sewer 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 District'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2018-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ledbetter Water & Sewer 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*.

Ledbetter Water & Sewer District's Response to Findings

Ledbetter Water & Sewer District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Ledbetter Water & Sewer 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.

Kemper CPA Group, LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
June 6, 2019

**Ledbetter Water & Sewer District
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2017**

Findings – Financial Statements Audit

Reference #2018-01

Condition

During our inquiries over internal controls and related testing, we noted the District does not have proper segregation of duties.

Criteria

The basic premise of a good system of internal control is no one person should have access to the entity's assets and responsibility for the related accounting records.

Cause

The bookkeeper has access to all the District's assets and responsibility for recording all financial transactions.

Effect

There is increased risk of funds being expended for unauthorized expenditures and failure to deposit funds received into District-owned bank accounts.

Recommendation

We recommend a member of management review and approve all expenses prior to payment and review the bank reconciliation each month.

Views of Responsible Officials and Planned Corrective Actions

The District will review their processes and determine areas where controls can be strengthened.

Ledbetter Water & Sewer District
SUMMARY SCHEDULE OF PRIOR FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016

Reference #2017-01

Condition

During our inquiries over internal controls and related testing, we noted the District does not have proper segregation of duties.

Status

This issue is still present.