

LEDBETTER WATER AND SEWER DISTRICT
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
WITH
INDEPENDENT AUDITORS' REPORTS
As of and for the year ended December 31, 2018

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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, 2018, 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, 2018, 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.

Emphasis of Matter – Change in Accounting Principle

As described in Note 1 to the financial statements, the District adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective as of January 1, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

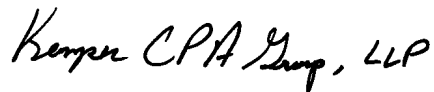
Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and pension and other post-employment benefits schedules on pages 2-5 and 26-29 be presented to supplement the basic financial statements. Such information, although not a part 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 30-31, 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 October 31, 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.



Certified Public Accountants and Consultants
Paducah, Kentucky
October 31, 2019

LEDBETTER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

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, 2018. 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 \$345,302 at December 31, 2018. Of this amount \$1,068 is restricted for debt service and \$744,554 is invested in capital assets net of the related debt, leaving unrestricted net position of (\$563,424).

The District's net position decreased for the year by \$136,094.

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 6-8 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 9-25 of this report.

Required Supplementary Information – Required supplementary information can be found on pages 26-29 of this report.

Other Supplementary Information – Other Supplementary information can be found on pages 30-31 of this report.

LEDBETTER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

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 \$345,302 at December 31, 2018. That represents a decrease of \$136,094 over the restated net position from December 31, 2017 of \$481,396. Net position at December 31, 2018 was restated for a variety of items as explained in the notes to the financial statements (Note 12).

During 2018, the District's net capital assets decreased \$106,866. This reduction is mainly due to depreciation for the year. Total noncurrent liabilities increased by \$204,050. The amount of principal repaid during 2018 was \$72,500. There was no new debt during 2018.

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.

Current assets	\$ 587,233	\$ 542,527
Other Non-current assets	2,751,086	2,857,952
Total assets	<u>3,338,319</u>	<u>3,400,479</u>
Deferred Outflows Related to Pensions	<u>193,069</u>	<u>124,839</u>
Liabilities:		
Current liabilities	497,988	452,404
Non-current liabilities	2,634,808	2,430,758
Total liabilities	<u>3,132,796</u>	<u>2,883,162</u>
Deferred Inflows Related to Pensions	<u>53,290</u>	<u>27,943</u>
Net position:		
Net investment in capital assets	744,554	782,401
Restricted	164,172	218,832
Unrestricted	(563,424)	(387,020)
Total net position	<u>\$ 345,302</u>	<u>614,213</u>
Prior Period Adjustments		(132,817)
Restated net position at December 31, 2017		<u>\$ 481,396</u>

LEDBETTER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

	Governmental Activities	
	2018	2017
Operating revenue	\$ 911,228	\$ 841,310
Operating expenses	1,010,849	898,757
Operating income (loss)	(99,621)	(57,447)
Non-operating revenue and expense	(56,151)	(53,281)
Capital contributions	19,678	25,186
Change in net position	(136,094)	(85,542)
Net position, beginning of year, restated (See Note 12)	481,396	699,755
Net position, end of year	\$ 345,302	\$ 614,213

A portion of the District's net position (\$744,554) 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	\$ 899,815	\$ 911,228	\$ 11,413
Operating Expenses	768,592	1,010,849	\$ (242,257)
Non-operating Revenues	8,222	19,849	11,627
Non-operating Expenses	62,152	56,322	5,830
Total Negative Variance			\$ (213,387)

LEDBETTER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2018 was \$2,751,086. The District acquired assets totaling \$54,808 during 2018. The district had no disposal of assets during 2018.

	2018	2017
Construction in progress	\$ 146,800	\$ 146,800
Land	101,340	101,340
Buildings	766,206	766,206
Machinery	76,115	76,115
Plant & equipment	5,350,640	5,296,032
Furniture & fixtures	22,419	22,219
Total capital assets	<u>6,463,520</u>	<u>6,408,712</u>
Less accumulated depreciation	<u>(3,712,434)</u>	<u>(3,550,760)</u>
Total capital assets, net	<u>\$ 2,751,086</u>	<u>\$ 2,857,952</u>

LONG-TERM DEBT

The District's long-term debt at December 31, 2018 was \$2,006,532. A schedule of the District's long-term debt at December 31, 2018 follows:

	2018	2017
Revenue Bond Series 1978	\$ -	\$ 20,000
KIA loan	987,247	1,161,479
KACO loan	1,019,285	897,553
Total long-term debt	<u>\$ 2,006,532</u>	<u>\$ 2,079,032</u>

CURRENTLY KNOWN FACTS, DECISIONS, CONDITIONS:

The District is currently involved in litigation and the PSC approved rate increases as described in the notes to the financial statements (Note 14).

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
December 31, 2018

	Water	Sewer	Total
Assets			
Cash and cash equivalents	\$ 42,361	\$ 24,062	\$ 66,423
Accounts receivable	42,741	45,395	88,136
Prepaid expenses	4,074	4,074	8,148
Inventory	14,423	1,620	16,043
Due from sewer	260,020	-	260,020
Restricted cash	147,395	1,068	148,463
Total current assets	<u>511,014</u>	<u>76,219</u>	<u>587,233</u>
Non-current assets:			
Capital assets:			
Non-Depreciable	138,640	109,500	248,140
Depreciable, net of accumulated depreciation	<u>589,836</u>	<u>1,913,110</u>	<u>2,502,946</u>
Total non-current assets	<u>728,476</u>	<u>2,022,610</u>	<u>2,751,086</u>
Total assets	<u>1,239,490</u>	<u>2,098,829</u>	<u>3,338,319</u>
Deferred Outflows of Resources			
Deferred outflows related to OPEB	29,468	26,876	56,344
Deferred outflows related to pensions	<u>71,507</u>	<u>65,218</u>	<u>136,725</u>
Total deferred outflows	<u>100,975</u>	<u>92,094</u>	<u>193,069</u>
Liabilities			
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable	18,087	5,492	23,579
Other current liabilities	18,474	16,257	34,731
Accrued interest payable	-	1,925	1,925
Due to water	-	260,020	260,020
Current maturities of long-term debt	-	236,888	236,888
Tenant deposits payable	<u>14,830</u>	<u>15,709</u>	<u>30,539</u>
Total current liabilities	<u>51,391</u>	<u>536,291</u>	<u>587,682</u>
Noncurrent liabilities:			
Lease payable	-	984,285	984,285
Notes payable	-	785,359	785,359
Net OPEB liability	91,539	83,488	175,027
Net pension liability	<u>314,032</u>	<u>286,411</u>	<u>600,443</u>
Total noncurrent liabilities	<u>405,571</u>	<u>2,139,543</u>	<u>2,545,114</u>
Total liabilities	<u>456,962</u>	<u>2,675,834</u>	<u>3,132,796</u>
Deferred Inflows of Resources			
Deferred inflows related to OPEB	17,357	15,831	33,188
Deferred inflows related to pensions	<u>10,513</u>	<u>9,589</u>	<u>20,102</u>
Total deferred inflows	<u>27,870</u>	<u>25,420</u>	<u>53,290</u>
Net Position			
Net investment in capital assets	728,476	16,078	744,554
Restricted for:			
Capital asset replacement	118,563	-	118,563
Customer deposits	25,729	15,709	41,438
Other	3,103	-	3,103
Debt service	-	1,068	1,068
Unrestricted	<u>(20,238)</u>	<u>(543,186)</u>	<u>(563,424)</u>
Total net position	<u>\$ 855,633</u>	<u>\$ (510,331)</u>	<u>\$ 345,302</u>

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
For the Year Ended December 31, 2018

Operating Revenues	Water	Sewer	Total
Charges for services	\$ 466,911	\$ 444,317	\$ 911,228
Total operating revenue	<u>466,911</u>	<u>444,317</u>	<u>911,228</u>
Operating Expenses			
Water purchases	98,879	-	98,879
Salary expenses	221,147	227,579	448,726
Treatment expenses	55,858	98,264	154,122
Maintenance expenses	21,642	31,452	53,094
General operating expenses	58,708	35,645	94,353
Depreciation	41,323	120,352	161,675
Total operating expenses	<u>497,557</u>	<u>513,292</u>	<u>1,010,849</u>
Operating income (loss)	<u>(30,646)</u>	<u>(68,975)</u>	<u>(99,621)</u>
Nonoperating Revenue (Expenses)			
Interest revenue	168	3	171
Interest expense	(488)	(55,834)	(56,322)
Total nonoperating expenses	<u>(320)</u>	<u>(55,831)</u>	<u>(56,151)</u>
Capital Contributions			
Capital Contribution	12,328	-	12,328
Tap-on fees	5,350	2,000	7,350
Total capital contributions	<u>17,678</u>	<u>2,000</u>	<u>19,678</u>
Change in net position	<u>(13,288)</u>	<u>(122,806)</u>	<u>(136,094)</u>
Net position, beginning of year	939,130	(324,917)	614,213
Prior period adjustment - See Note 12	<u>(70,209)</u>	<u>(62,608)</u>	<u>(132,817)</u>
Net position, beginning of year, restated	<u>868,921</u>	<u>(387,525)</u>	<u>481,396</u>
Net position, end of year	<u>\$ 855,633</u>	<u>\$ (510,331)</u>	<u>\$ 345,302</u>

Ledbetter Water and Sewer District
Statement of Cash Flows
For the Year Ending December 31, 2018

	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 458,181	\$ 430,973	\$ 889,154
Cash payments to suppliers	(286,832)	(63,603)	(350,435)
Cash payments to employees	(209,942)	(217,442)	(427,384)
Net cash provided (used) by operating activities	(38,593)	149,928	111,335
Cash flows from capital and related financing activities:			
Capital Contributions	12,328	-	12,328
Tap-on fees	5,350	2,000	7,350
Acquisition and construction of property, plant and equipment	(21,353)	(33,455)	(54,808)
Principal payments on long-term debt	(20,000)	(52,500)	(72,500)
Interest on long-term debt	(488)	(55,834)	(56,322)
Net cash provided (used) for capital and related financing activities	(24,163)	(139,789)	(163,952)
Cash flows from investing activities:			
Interest on investments	168	3	171
Net cash provided (used) by investing activities	168	3	171
Net increase (decrease) in cash and cash equivalents	(62,588)	10,142	(52,446)
Cash and cash equivalents, beginning of year	252,344	14,988	267,332
Cash and cash equivalents, end of year	\$ 189,756	\$ 25,130	\$ 214,886
Reconciliation to Statement of Net Position			
Cash and cash equivalents-current	\$ 42,361	\$ 24,062	\$ 66,423
Restricted cash	147,395	1,068	148,463
	\$ 189,756	\$ 25,130	\$ 214,886
Reconciliation of Operating Income to Net Cash Provided by Operations			
Operating income	\$ (30,646)	\$ (68,975)	\$ (99,621)
Adjustments-operating activities			
Depreciation and amortization	41,323	120,352	161,675
(Increase) decrease in:			
Accounts receivable	(8,730)	(13,344)	(22,074)
Prepaid expenses	(38)	(38)	(76)
Inventory	(1,173)	122	(1,051)
Due from other funds	(73,951)	-	(73,951)
Deferred outflows	(13,575)	(16,248)	(29,823)
Increase (decrease) in:			
Accounts payable	5,813	(1,268)	4,545
Customer deposits	(244)	(206)	(450)
Interest payable	-	180	180
Other current liabilities	(1,059)	(2,058)	(3,117)
Due to other funds	-	73,951	73,951
Net OPEB liability	(775)	(706)	(1,481)
Net pension liability	36,515	50,008	86,523
Deferred inflows	7,947	8,158	16,105
Net cash provided by operating activities	\$ (38,593)	\$ 149,928	\$ 111,335

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

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 pronouncement. The governing body of the district is made up of four commissioners and a secretary-treasurer, and they have 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 provider 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.

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.

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 and other 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.

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 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, 2018, the Sewer fund owed the Water fund \$260,020.

Adoption of Accounting Principle – Effective January 1, 2018, the District adopted GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local government employers. The District participates in a cost-sharing defined benefit plan which is required to report a net OPEB liability, OPEB expenses, and OPEB-related deferred inflows and outflows of resources based on the employer's proportionate share of the collective amount for all employers in the plan (See Note 7). The District's beginning net position as of January 1, 2018 has been restated to reflect the inclusion of OPEB related assets and liabilities required by GASB No. 75. The January 1, 2018 Statements of Net Position has been restated by (\$77,159) and (\$70,183) for water and sewer respectively.

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 or fund balance 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 and OPEB 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Post-Employment Benefits (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 7 for OPEB 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, 2018 the balance of the Water Sinking Fund was \$3,103.

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, 2018 the balance of the Sewer Sinking Fund was \$385.

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, 2018 the balance of the Depreciation Reserve Fund was \$90,455, the balance of the Customer Deposit Checking Account was \$25,729, the balance of the Certificate of Deposit – Reserve was \$27,877, and the balance for the Construction Account was \$231 for a total of \$144,292.

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, 2018 was \$683.

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.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

3 DEPOSITS (continued)

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, 2018, the carrying amount of District's deposits was \$214,886 and the bank balance of \$234,176 was categorized as follows:

Insured by FDIC	\$ 234,176
Uninsured and collateralized with securities held by the pledging financial institution in the district's name.	<u> -</u>
	<u>\$ 234,176</u>

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, 2018

4 CAPITAL ASSETS

Capital asset activity for Ledbetter Water and Sewer District for the year ended December 31, 2018, was as follows:

Water:	Beginning Balance 1/1/2018	Increases	Decreases	Ending Balance 12/31/2018
Capital assets not being depreciated:				
Construction in progress	\$ 135,160	\$ -	\$ -	\$ 135,160
Land	3,480	-	-	3,480
Total capital assets not being depreciated	<u>138,640</u>	<u>-</u>	<u>-</u>	<u>138,640</u>
Capital assets being depreciated:				
Electric Pump Equipment	59,154	2,106		61,260
General Plant	51,861	-	-	51,861
Hydrants	30,581	10,986	-	41,567
Mains	525,310	-	-	525,310
Meter Installations	14,405	-	-	14,405
Meter	84,978	1,824	-	86,802
Office Furniture	22,219	200	-	22,419
Other Misc Equipment	47,146	-	-	47,146
Services	72,793	5,350	-	78,143
Tanks	224,441	-	-	224,441
Tools & Shop Equipment	22,501	887	-	23,388
Vehicles & Trans Equipment	33,115	-	-	33,115
Water Treatment Equipment	35,550	-	-	35,550
Water Treatment Structure	675,742	-	-	675,742
Total capital assets being depreciated	<u>1,899,796</u>	<u>21,353</u>	<u>-</u>	<u>1,921,149</u>
Less accumulated depreciation for:				
Electric Pump Equipment	(46,024)	(1,607)	-	(47,631)
General Plant	(33,124)	(1,653)	-	(34,777)
Hydrants	(15,907)	(1,782)	-	(17,689)
Mains	(300,149)	(10,690)	-	(310,839)
Meter Installations	(9,740)	(289)	-	(10,029)
Meter	(35,908)	(2,901)	-	(38,809)
Office Furniture	(21,389)	(446)	-	(21,835)
Other Misc Equipment	(44,820)	(1,142)	-	(45,962)
Services	(47,243)	(1,789)	-	(49,032)
Tanks	(154,476)	(3,190)	-	(157,666)
Tools & Shop Equipment	(17,321)	(1,811)	-	(19,132)
Vehicles & Trans Equipment	(33,115)	-	-	(33,115)
Water Treatment Equipment	(24,829)	(513)	-	(25,342)
Water Treatment Structure	(505,945)	(13,510)	-	(519,455)
Total accumulated depreciation	<u>(1,289,990)</u>	<u>(41,323)</u>	<u>-</u>	<u>(1,331,313)</u>
Total capital assets being depreciated, net	609,806	(19,970)	-	589,836
Capital assets, net	<u>\$ 748,446</u>	<u>\$ (19,970)</u>	<u>\$ -</u>	<u>\$ 728,476</u>

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

4 CAPITAL ASSETS (continued)

Sewer:	Beginning Balance 1/1/2018	Increases	Decreases	Ending Balance 12/31/2018
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	83,486	600	-	84,086
Lines	2,501,774	32,486	-	2,534,260
Plant & Lagoons	1,190,124	-	-	1,190,124
Utility Assets	140,581	369	-	140,950
Vehicles	20,499	-	-	20,499
Total capital assets being depreciated	<u>4,260,777</u>	<u>33,455</u>	<u>-</u>	<u>4,294,232</u>
Less accumulated depreciation for:				
Buildings and Improvements	(20,586)	(965)	-	(21,551)
Engineering Cost	(151,697)	(7,143)	-	(158,840)
General & Office Equipment	(69,029)	(3,857)	-	(72,886)
Lines	(1,303,047)	(67,806)	-	(1,370,853)
Plant & Lagoons	(628,079)	(31,612)	-	(659,691)
Utility Assets	(67,834)	(8,969)	-	(76,803)
Vehicles	(20,498)	-	-	(20,498)
Total accumulated depreciation	<u>(2,260,770)</u>	<u>(120,352)</u>	<u>-</u>	<u>(2,381,122)</u>
Total capital assets being depreciated, net	<u>2,000,007</u>	<u>(86,897)</u>	<u>-</u>	<u>1,913,110</u>
Capital assets, net	<u>\$ 2,109,507</u>	<u>\$ (86,897)</u>	<u>\$ -</u>	<u>\$ 2,022,610</u>

Depreciation charged to income was \$161,674 during the year ending December 31, 2018 as follows:

Business-type depreciation:	
Water	\$ 41,323
Sewer	120,352
Total depreciation	<u>\$ 161,675</u>

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

5 LONG-TERM DEBT

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:

	Principal	Interest	Total
2019	\$ 201,888	\$ -	\$ 201,888
2020	112,194	-	112,194
2021	112,194	-	112,194
2022	112,194	-	112,194
2023-2026	448,777	-	448,777
	\$ 987,247	\$ -	\$ 987,247

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%. As of December 31, 2018, the future minimum lease principal and interest requirements for the capital lease are as follows:

Year End December 31	Principal	Interest	Total
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
	\$ 1,019,285	\$ 604,230	\$ 1,623,515

The lease is secured by sewer distribution lines. Amortization of the leased asset is included in depreciation expense.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

5 LONG-TERM DEBT (continued)

Total debt activity for the district for the year ending December 31, 2018 is as follows:

Debt Schedule:	<u>Balance 1/1/18</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/18</u>	<u>Current Portion</u>
Sewer KIA	\$ 1,009,747	\$ -	\$ 22,500	\$ 987,247	\$ 201,888
Sewer KACO Lease	1,049,285	-	30,000	1,019,285	35,000
OPEB Obligation	170,769	15,742	11,484	175,027	-
Pension Obligation	513,920	121,905	35,382	600,443	-
	<u>\$ 2,743,721</u>	<u>\$ 137,647</u>	<u>\$ 99,366</u>	<u>\$ 2,782,002</u>	<u>\$ 236,888</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 Unreduced retirement Reduced retirement	Prior to September 1, 2008 27 years of service or 65 years old Minimum 5 years of service and 55 years old Minimum 25 years of service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 to December 31, 2013 Minimum 5 years of service and 65 years old Age 57 or older and sum of service years plus age equal 87 Minimum 10 years of service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 Minimum 5 years of service and 65 years old Age 57 or older and sum of service years plus age equal 87 Not available

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

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 for non-hazardous employees was 19.18% for January 1 – June 30, 2018 and 21.48% for July 1 – December 31, 2018.

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

Pension Liability—At December 31, 2018, the Ledbetter Water District reported a liability of \$600,443 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 year ended June 30, 2018, relative to the contributions of all members for the year ended June 30, 2018. At the June 30, 2018 measurement date, District's proportion was 0.009859%.

2018	2017	
Employer	Employer	
Allocation	Allocation	
<u>Percentage</u>	<u>Percentage</u>	<u>Change in</u>
.009859%	.00878%	Proportionate
		<u>Share</u>
		.0001079%

Pension expense- For the year ended December 31, 2018, the District recognized a pension expense of \$100,440.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

6 PENSION PLAN (continued)

Deferred outflows of resources and deferred inflows of resources- For the year ended December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Water & Sewer	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,585	\$ 8,789
Change of assumptions	58,681	-
Net difference between projected and actual earnings on plan investments	-	7,200
Changes in proportion and differences between employer contributions and proportionate share of contributions	37,241	4,113
Employer contributions subsequent to the measurement date	21,218	-
	\$ 136,725	\$ 20,102

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	\$ 59,406
Year 2	39,233
Year 3	(13)
Year 4	(3,221)
Year 5	-
Thereafter	-

Actuarial assumptions- The total pension liability actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Projected salary increases	2.00%
Investment rate of return, net of investment expense & inflation	6.25%

Mortality rates 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 RP-2000 Combined Mortality Table projected with scale BB to 2013 (set-back for one year for females). The RP-2000 Disabled Mortality Table projected with scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

6 PENSION PLAN (continued)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. 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 long-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 assumptions, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	35.0%	4.5%-7.25%
Combined Fixed Income	28.0%	3.0%-8.5%
Real Estate	5.0%	9.0%
Private Equity	10.0%	6.5%
Real Return(Diversified Inflation Strategies)	10.0%	7.0%
Absolute Return (Diversified Hedge Funds)	10.0%	5.0%
Cash	2.0%	1.5%
Total	100.0%	

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.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate- The following presents the net pension liability calculated using the discount rates selected by the pension system, as well as what the net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease (5.25%)</u>	<u>Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Ledbetter Water and Sewer District's net pension liability	\$ 755,896	\$ 600,443	\$ 470,201

7 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

CERS Medical Insurance Plan

Plan description—the District contributes to the Kentucky Retirement Systems Insurance fund (Insurance Fund), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Kentucky Retirement System (KRS). The Insurance Fund was established to provide hospital and medical insurance for members for receiving benefits from the Kentucky Employees Retirement Systems (KRS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The District participates in the County Employees Retirement System (CERS). CERS non-hazardous and hazardous employee plans are administered separately.

Benefits provided—the Insurance Fund pays a prescribed contribution for whole or partial payments of required premiums to purchase hospital and medical insurance, based on years of service, for retirees and certain eligible beneficiaries. The authority to establish and amend benefits provisions rests with the Kentucky General Assembly. KRS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

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

Contributions—per Kentucky Revised Statutes 78.545 (33), contribution requirements are established and may be amended by the KRS Board. The District required to contribution rate for non-hazardous employees of 4.73% for the period January 1, 2018 to June 30, 2018 and 5.26% for the period July 1, 2018 to December 31, 2018.

The District reported a liability for its proportionate share of the net OPEB liability for the CERS Insurance Trust. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's non-hazardous proportion was .009858 percent.

The amount recognized by the District as its proportionate share of the OPEB liability was \$175,027.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

7 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

For the year ended December 31, 2018, the District recognized OPEB expense of \$24,988. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Water and Sewer	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 20,397
Changes in assumptions	34,955	404
Net difference between projected and actual earnings on pension plan investments	-	12,056
Changes in proportion and differences between District contributions and proportionate share of contributions	14,504	331
Employer contributions subsequent to the measurement date	6,887	-
Total	\$ 56,346	\$ 33,188

\$6,887 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to OPEB will be recognized in OPEB expense as follows:

	<u>Non- Hazardous</u>
Year 1	\$ 3,282
Year 2	3,282
Year 3	3,282
Year 4	5,623
Year 5	1,132
Thereafter	(330)

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

7 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial assumptions—The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05%
Inflation rate	2.30%
Real Wage Growth	0.50%
Wage inflation	2.00%
Healthcare cost trend rates	
Under 65	7.25% for FY 2017 decreasing to an ultimate rate of 4.05% by FY 2031
Ages 65 and Older	5.10% for FY 2017 decreasing to an ultimate rate of 4.05% by FY 2029
Municipal Bond Index Rate	3.56%
Discount Rate	5.85%
Single Equivalent Interest Rate	5.85%, net of OPEB plan investment expense, including inflation

Mortality rates 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 RP-2000 Combined Mortality Table projected with scale BB to 2013 (set-back for one year for females). The RP-2000 Disabled Mortality Table projected with scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	35.0%	4.5%-7.3%
Fixed Income	28.0%	3.0%-6.0%
Real Estate	5.0%	9.0%
Private Equity	10.0%	6.5%
Real Return	10.0%	5.0%
Absolute Return	10.0%	7.0%
Cash	2.0%	1.5%
Total	<u>100.0%</u>	

7 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Discount rate—The discount rate used to measure the total OPEB liability was 5.85%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

	<u>1% Decrease</u> (4.85%)	<u>Current Discount Rate</u> (5.85%)	<u>1% Increase</u> (6.85%)
Proportionate share of net OPEB liability	\$227,332	\$175,027	\$ 130,473

Sensitivity of the proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates—The following presents the proportionate share of the collective net OPEB liability, as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Cost Trend Rate</u>	<u>1% Increase</u>
Proportionate share of net OPEB liability	\$ 130,309	\$ 175,027	\$227,736

8 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, 2018 was \$23,669 and was considered to be a current liability.

9 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.

10 INTEREST EXPENSE

The District incurred interest cost in 2018 for water and sewer of \$488 and \$55,834, respectively. The entire amount has been recognized as a current non-operating expense.

Ledbetter Water and Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2018

11 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.

12 PRIOR PERIOD ADJUSTMENT

During the fiscal year, the District determined the customer deposits was not properly recorded in prior years. The District corrected the beginning customer deposit liability, which resulted in a \$14,525 increase in beginning net position.

Effective January 1, 2018, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 75, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)" (GASB 75). GASB 75 replaced the requirements of GASB 45, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" and GASB 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", as they relate to governments that provide OPEB through 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 District, 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 District is only presenting one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$147,342 reduction in beginning net position on the Statement of Activities, an increase of \$38,407 of deferred other post-employment benefits outflows, an increase of \$9,241 of deferred other post-employment benefits inflows, and an increase of \$176,508 of other post-employment benefits obligations. Beginning net position restatement by type is as follows:

Net position has been restated to reflect the following:

	<u>Water</u>	<u>Sewer</u>
Net position, beginning (previously reported)	\$ 939,130	\$ (324,917)
Correction beginning Customer Deposits	6,950	7,575
GASB 75 implementation	<u>(77,159)</u>	<u>(70,183)</u>
Net position, beginning restated	<u>\$ 868,921</u>	<u>\$ (387,525)</u>

14 CONTINGENCIES

Litigation

On July 13, 2015, Ledbetter Water & Sewer District brought litigation against another water district, contending that the contract to purchase water from that district was void. Early in 2017 the Livingston County Circuit Court entered a summary judgement in favor of the Ledbetter Water and Sewer District. The other water district filed an appeal with the Kentucky Court of Appeals. In 2018 the Court of Appeals ruled in favor of the other water district, reversing the ruling of the Livingston County Circuit Court. On April 1, 2019, the Ledbetter Water and Sewer District filed a brief with the Kentucky Supreme Court appealing the ruling of the Court of Appeals. This case is expected to continue until late in 2019 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.

Rate Increases

On April 2, 2018, the Ledbetter Water and Sewer District filed an application with the Kentucky Public Service Commission (PSC) to increase water and sewer rates for the purpose of enabling the district to better meet its operating expenses and debt obligations. The PSC issued an order on September 10, 2018, approving an increase in rates of 17.52% for water service and 57.63% for sewer service. The Sewer rate increase was divided into two phases. The phase 1 sewer rate increase raised rates by 37.46%. The second phase will take effect on September 10, 2019. Total revenues for water are expected to increase by \$74,796 annually as a result of the rate increase if the volume of water sales stays the same. Sewer revenues should increase by \$161,050 annually in phase 1. These rate increases will result in net operating income in the future.

15 SUBSEQUENT EVENTS

In September 2019, the District elected to delay the October 1, 2019 phase 2 Sewer rate increase until July 1, 2020 at the request from Livingston County Fiscal Court. In exchange, the Fiscal Court will provide funding for the Kentucky Association of Counties Leasing Trust debt issue from September 2019 through June 2020.

Management has evaluated subsequent events through October 31, 2019 the date which the financial statements were available to be issued.

LEDBETTER WATER AND SEWER DISTRICT

OTHER SUPPLEMENTARY INFORMATION

LEDBETTER WATER AND SEWER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES' RETIREMENT SYSTEM
 LAST FOUR FISCAL YEARS*

<u>Year Ended December 31</u>	<u>District's proportion of the net pension liability</u>	<u>District's proportionate share of the net pension liability</u>	<u>District's covered employee payroll</u>	<u>District's share of the net pension liability as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2018	0.009859%	\$ 600,443	\$ 249,294	240.85%	53.54%
2017	0.008780%	\$ 513,920	\$ 213,418	240.80%	53.30%
2016	0.008790%	\$ 432,830	\$ 209,762	206.34%	55.50%
2015	0.008890%	\$ 425,178	\$ 226,583	187.65%	59.97%

*The amounts presented were determined as of the measurement date June 30 of the prior year.

*Schedule is intended to show information for 10 years. Additional years of supplementary information will be provided as this information becomes available.

LEDBETTER WATER AND SEWER DISTRICT
 SCHEDULE OF CONTRIBUTIONS
 COUNTY EMPLOYEES' RETIREMENT SYSTEM OF THE KRS
 LAST FIVE FISCAL YEARS*

Year Ended December 31	Actuarially Determined Contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Fiscal Year District's covered employee payroll	Contributions as a percentage of covered employee payroll
2018	\$ 39,269	\$ 39,269	-	\$ 255,504	15.37%
2017	\$ 31,737	\$ 31,737	-	\$ 229,247	13.80%
2016	\$ 28,177	\$ 28,177	-	\$ 213,418	13.20%
2015	\$ 27,124	\$ 27,124	-	\$ 215,472	12.59%
2014	\$ 30,280	\$ 30,280	-	\$ 228,782	13.24%

*Schedule is intended to show information for 10 years. Additional years of supplementary information will be provided as this information becomes available.

Notes to Schedule of Contributions for FY 2018

Changes of assumptions:

The actuarially determined contribution rates effective for fiscal year ending 2018 that are documented in the above schedule are calculated as of June 30, 2016. Based on the June 30, 2016 actuarial valuation report (produced by the prior actuary), the actuarial methods and assumptions used to calculate these contribution rates are below:

Determined by the Actuarial

Valuation as of	June 30, 2016
Actuarial cost method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level Percent of Pay
Amortization period	27 years, Closed
Payroll growth rate	3.05%
Investment Return	6.25%
Inflation	2.30%
Single discount rate	5.85%
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 & SEWER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB MEDICAL INSURANCE LIABILITY
 COUNTY EMPLOYEES' RETIREMENT SYSTEM

<u>Year Ended December 31</u>	<u>District's proportion of the net OPEB liability</u>	<u>District's proportionate share of the net OPEB pension liability (asset)</u>	<u>District's covered employee payroll</u>	<u>Districts's share of the net OPEB liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2018	0.009858%	\$ 175,027	\$ 249,294	70.21%	57.6218%

The amounts presented were determined as of the measurement date June 30 of the prior year.

Schedule is intended to show information for 10 years. Additional years of supplementary information will be provided as this information becomes available.

LEDBETTER WATER AND SEWER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS- OPEB MEDICAL INSURANCE PLAN
 COUNTY EMPLOYEES' RETIREMENT SYSTEM

<u>Year Ended December 31</u>	<u>Contractually required OPEB contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2018	\$ 12,746	\$ 12,746	\$ -	\$ 255,504	4.99%

Schedule is intended to show information for 10 years. Additional years of supplementary information will be provided as this information becomes available.

Notes to Schedule of Contributions for FY 2018

Changes of assumptions:

The actuarially determined contribution rates effective for fiscal year ending 2018 that are documented in the above schedule are calculated as of June 30, 2016. Based on the June 30, 2016 actuarial valuation report (produced by the prior actuary), the actuarial methods and assumptions used to calculate these contribution rates are below:

Determined by the Actuarial	
Valuation as of	June 30, 2016
Actuarial cost method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level Percent of Pay
Amortization period	27 years, Closed
Payroll growth rate	2.00%
Investment Return	6.25%
Inflation	2.30%
Single discount rate	5.85%
Salary Increases	4.00%; average
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).
Healthcare trend rates	
Pre-65	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

LEDBETTER WATER AND SEWER DISTRICT

REQUIRED 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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 485,278	\$ 461,163	\$ 466,911	\$ 5,748
Total operating revenues	<u>485,278</u>	<u>461,163</u>	<u>466,911</u>	<u>5,748</u>
Operating expenses:				
Water purchases	93,973	93,973	98,879	(4,906)
Salary expenses	174,095	175,844	221,147	(45,303)
Water treatment expenses	67,943	66,553	55,858	10,695
Maintenance expenses	11,435	18,703	21,642	(2,939)
General operating expenses	127,659	85,671	58,708	26,963
Depreciation	-	-	41,323	(41,323)
Total operating expenses	<u>475,105</u>	<u>440,744</u>	<u>497,557</u>	<u>(56,813)</u>
Operating income	<u>10,173</u>	<u>20,419</u>	<u>(30,646)</u>	<u>(51,065)</u>
Non-operating income (expenses):				
Capital Contributions	-	-	12,328	12,328
Tap-on fees	5,950	5,950	5,350	(600)
Interest revenue	138	138	168	30
Interest expense	(3,400)	(3,400)	(488)	2,912
Total non-operating revenue (expenses)	<u>2,688</u>	<u>2,688</u>	<u>17,358</u>	<u>14,670</u>
Change in net position	<u>\$ 12,861</u>	<u>\$ 23,107</u>	<u>(13,288)</u>	<u>\$ (36,395)</u>
Net position, beginning of year, restated			<u>868,921</u>	
Net position, end of year			<u>\$ 855,633</u>	

Ledbetter Water and Sewer District
Statement of Revenues, Expenses and Changes in Net Position - Sewer
Budget and Actual
For the Year Ending December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 499,403	\$ 438,652	\$ 444,317	\$ 5,665
Total operating revenues	<u>499,403</u>	<u>438,652</u>	<u>444,317</u>	<u>5,665</u>
Operating expenses:				
Salary expenses	159,670	166,470	227,579	(61,109)
Treatment expenses	79,087	90,946	98,264	(7,318)
Maintenance expenses	48,030	47,703	31,452	16,251
General operating expenses	35,135	22,729	35,645	(12,916)
Depreciation	-	-	120,352	(120,352)
MAF Expense	6,556	-	-	-
Total operating expenses	<u>328,478</u>	<u>327,848</u>	<u>513,292</u>	<u>(185,444)</u>
Operating income	<u>170,925</u>	<u>110,804</u>	<u>(68,975)</u>	<u>(179,779)</u>
Non-operating revenue (expense):				
Tap-on fees	1,000	2,000	2,000	-
Interest revenue	134	134	3	(131)
Interest expense	(58,752)	(58,752)	(55,834)	2,918
Total non-operating revenue (expenses)	<u>(57,618)</u>	<u>(56,618)</u>	<u>(53,831)</u>	<u>2,787</u>
Change in net position	<u>\$ 113,307</u>	<u>\$ 54,186</u>	<u>(122,806)</u>	<u>\$ (176,992)</u>
Net position, beginning of year, restated			<u>(387,525)</u>	
Net position, end of year			<u>\$ (510,331)</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 business-type activities of the Ledbetter Water & Sewer District as of and for the year ended December 31, 2018, 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 October 31, 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
October 31, 2019

Ledbetter Water & Sewer District
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

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, 2018

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.