

**LYON COUNTY WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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**FOR THE YEAR ENDED DECEMBER 31, 2017**

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**JESSICA K. DANIEL, CPA PSC**  
CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Commissioners  
Lyon County Water District  
Kuttawa, Kentucky

We have audited the accompanying financial statements of the Lyon County Water 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 the 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 of 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 assessments 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**

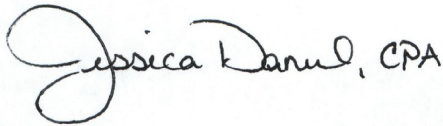
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Lyon County Water District as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedule of contributions, and schedule of proportionate share of net pension liability on pages 3 through 6 and 30 through 33 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated August 14, 2018, on our consideration of the Lyon County Water District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Handwritten signature of Jessica Daniel, CPA in black ink.

Eddyville, Kentucky  
August 14, 2018

**LYON COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017  
(UNAUDITED)**

The Lyon County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the years 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 statement provided in this document.

**FINANCIAL HIGHLIGHTS**

- The District's total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources as of December 31, 2017, by \$4,080,690 (Net Position).
- The District's total net position increased by \$290,099 during the year compared to a \$517,346 increase in the prior year.
- The District's operating revenues increased by \$43,914 over the prior year from \$1,200,355 to \$1,244,269.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Lyon County Water District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

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).

**Statement of net position.** The statement of net position presents the financial position of the District. It presents information on the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on pages 7 and 8.

**Statement of revenues, expenses and changes in net position.** The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 9 of this report.

**Statement of cash flows.** The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 10.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 11-28 of this report.

**Required Supplementary Information.** In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 30-33.

## 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 a government's financial position. In the case of the District, assets exceeded liabilities by \$4,080,690 as of December 31, 2017.

The District's overall financial position and operations for the past two years are summarized as follows:

### LYON COUNTY WATER DISTRICT'S NET POSITION

	2017	2016
Assets:		
Current and other assets	\$ 713,362	\$ 470,516
Capital assets	8,690,270	8,388,072
Restricted assets	369,212	2,695,200
Total Assets	9,772,844	11,553,788
Deferred Outflows of Resources:	162,561	83,529
Liabilities:		
Other liabilities	2,295,124	4,351,563
Current portion of long-term debt	50,909	63,613
Long-term liabilities	3,430,956	3,389,257
Total Liabilities	5,776,989	7,804,433
Deferred Inflows of Resources	77,726	42,293
Net Position:		
Net investment in capital assets	3,594,713	1,552,053
Restricted	385,758	2,710,289
Unrestricted	100,219	(471,751)
Total Net Position	\$ 4,080,690	\$ 3,790,591

The District's investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping and infrastructure), less any debt used to acquire those assets that is still outstanding is \$3,594,713 (88%). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position \$385,758 represents resources that are subject to external restriction on how they may be used. These resources are to be used for capital projects, customer deposits, and prepaid expenses.

The District's unrestricted net assets as of December 31, 2017 is a \$100,219.

**Analysis of the District's Operations** – Overall the District had an increase in net position of \$290,099.

The following table provides a summary of the District's operations for the year ended December 31, 2017 and 2016.

**LYON COUNTY WATER DISTRICT  
CHANGES IN NET POSITION**

	<u>2017</u>	<u>2016</u>
<b>Revenues</b>		
Operating revenues	\$ 1,244,269	\$ 1,200,355
Investment income	1,685	651
Proceeds from insurance	-	3,036
Gain (loss) on sale of assets	2,078	-
Capital grants and contributions	<u>215,679</u>	<u>544,705</u>
Total revenues	<u>1,463,711</u>	<u>1,748,747</u>
<b>Expenses</b>		
Water expenses	869,853	907,371
Depreciation and amortization	227,982	231,892
Interest expense	47,963	62,046
Wastewater expenses	15,270	19,478
Payroll and other taxes	<u>12,544</u>	<u>10,613</u>
Total Expenses	<u>1,173,612</u>	<u>1,231,400</u>
Change in net position	290,099	517,347
Net position - January 1	<u>3,790,591</u>	<u>3,273,244</u>
Net position - December 31	<u>\$ 4,080,690</u>	<u>\$ 3,790,591</u>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The District's investment in capital assets for business-type activities as of December 31, 2017, amounts to \$8,690,270 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure.

	<u>2017</u>	<u>2016</u>
<b>Business-type activities:</b>		
Capital assets, not being depreciated:		
Land	\$ 121,772	\$ 121,772
Construction in progress	<u>4,743,450</u>	<u>4,247,507</u>
Total capital assets, not being depreciated	<u>4,865,222</u>	<u>4,369,279</u>
Capital assets, being depreciated:		
Distribution lines	2,852,676	2,974,105
Sewer lines	704,601	726,294
Water tanks	76,276	90,740
Equipment	113,014	133,951
Building	33,267	35,335
Transportation	18,581	28,335
Improvements	<u>26,633</u>	<u>30,033</u>
Total capital assets, being depreciated	<u>3,825,048</u>	<u>4,018,793</u>
Business-type activities capital assets, net	<u>\$ 8,690,270</u>	<u>\$ 8,388,072</u>

During the year ended December 31, 2017, the District acquired assets totaling \$533,503. Of the amount \$495,943 is work in process related to the project for extensions, additions, and improvements to the existing waterworks system.

Additional information on the District's capital assets can be found in Note 5 of this report.

**Long-term and other debt**

At the end of the current year, the Lyon County Water District had total debt of \$5,055,909. Long-term debt at December 31, 2017, was as follows:

	<u>2017</u>	<u>2016</u>
<b><u>Long-Term Debt</u></b>		
KY Rural Water	\$ 1,155,000	\$ 1,195,000
USDA Bond Series 2016	1,900,000	1,900,000
BBT Governmental Finance	10,909	25,205
Capital Lease	-	<u>9,317</u>
Total Long-Term Debt	<u>3,065,909</u>	<u>3,129,522</u>
<b><u>Interim Financing</u></b>		
Kentucky Infrastructure Authority	1,990,000	1,765,125
Kentucky Rural Water Finance	-	<u>1,900,000</u>
Total Interim Financing	<u>1,990,000</u>	<u>3,665,125</u>
Total Debt	<u>\$ 5,055,909</u>	<u>\$ 6,794,647</u>

The District has interim financing as of December 31, 2017 to finance the extensions, additions, and improvements to the existing waterworks system. The District is in the process of drawing from a Kentucky Infrastructure Authority loan. As of December 31, 2017, \$1,990,000 has been received or is receivable of the \$2,000,000.

The District also had interim financing through Kentucky Rural Water Finance Corporation to fund the project. The total amount of \$1,900,000 was received or receivable as of December 31, 2016. Waterworks revenue bonds were issued December 31, 2016 in the amount of \$1,900,000 and were purchased by the USDA. These funds were received January 6, 2017, and were used to payoff the Kentucky Rural Water Finance debt.

Interest expense of \$132,766 was incurred during the year ended December 31, 2017, of which \$84,803 was capitalized.

Additional information on the District's long-term debt can be found in Notes 6, 7, and 8 of this report.

**REQUEST FOR INFORMATION**

This financial report is designated to provide a general overview of the Lyon County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Don Robertson, Chairman, Lyon County Water District, 5464 US 62 W, Kuttawa, Kentucky 42055.



**Lyon County Water District**  
**Statement of Net Position**  
**December 31, 2017**

<b><u>Assets</u></b>	<b><u>2017</u></b>
<b>Current Assets:</b>	
Cash equivalents	\$ 483,269
Customer accounts receivable	107,580
Unbilled revenue	79,492
Inventory	25,915
Prepayments	16,546
Restricted assets:	
Cash equivalents	250,333
Grant receivable	91,968
Loan receivable	26,911
Total current assets	<u>1,082,014</u>
<b>Noncurrent Assets:</b>	
Capital assets, net of depreciation	<u>8,690,270</u>
Total noncurrent liabilities	<u>8,690,270</u>
<b>Other Assets:</b>	
Deposits	<u>560</u>
Total other assets	<u>560</u>
Total Assets	<u>9,772,844</u>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred outflows of resources related to pensions	<u>162,561</u>
Total deferred outflows of resources	<u>162,561</u>
<b><u>Liabilities</u></b>	
<b>Current liabilities:</b>	
Accounts payable	37,448
Construction payable	213,865
Interim financing	1,990,000
Accrued interest on debt	23,459
Accrued liabilities	12,652
Customers' deposits	17,700
Long-term debt due in one year	<u>50,909</u>
Total current liabilities	<u>2,346,033</u>
<b>Noncurrent liabilities:</b>	
Compensated absences	6,400
Long-term debt due after one year	3,015,000
Net pension liability	409,556
Total noncurrent liabilities	<u>3,430,956</u>
Total Liabilities	<u>5,776,989</u>
<b><u>Deferred Inflows of Resources</u></b>	
Deferred inflows of resources related to debt	39,648
Deferred inflows of resources related to pensions	<u>38,078</u>
Total deferred inflows of resources	<u>77,726</u>

See accompanying notes to financial statements.

**Lyon County Water District**  
**Statement of Net Position**  
**December 31, 2017**

**Net Position**

Net investment in capital assets	3,594,713
Restricted for:	
Capital projects	118,879
Debt service	232,633
Customer deposits	17,700
Prepaid expenses	16,546
Unrestricted	<u>100,219</u>
Total Net Position	<u>\$ 4,080,690</u>

See accompanying notes to financial statements.

**Lyon County Water District**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended December 31, 2017**

	<b>2017</b>
<b><u>Operating Revenue</u></b>	
Water revenues	\$ 1,244,219
Other	50
Total Operating Revenues	1,244,269
<b><u>Operating Expenses</u></b>	
Water expenses	869,853
Depreciation	227,982
Wastewater expenses	15,270
Payroll and other taxes	12,544
Total Operating Expenses	1,125,649
<b><u>Operating Income (Loss)</u></b>	118,620
<b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment income	1,685
Gain on sale of assets	2,078
Interest on debt	(47,963)
Total Nonoperating Revenue (Expenses)	(44,200)
<b><u>Net Income before Capital Contributions</u></b>	74,420
<b><u>Capital Contributions</u></b>	
Construction grants	212,679
Tap-on fees	3,000
Total Capital Contributions	215,679
<b><u>Change in Net Position</u></b>	290,099
<b><u>Net Position-Beginning of Year</u></b>	3,790,591
<b><u>Net Position-End of Year</u></b>	\$ 4,080,690

See accompanying notes to financial statements.

**Lyon County Water District**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2017**

	<b>2017</b>
<b><u>Cash Flows from Operating Activities</u></b>	
Cash received from customers	\$ 1,212,123
Cash payments to suppliers for goods and services	(709,231)
Cash payments to employees for services	(163,260)
Net Cash Provided By Operating Activities	339,632
<b><u>Cash Flows From Capital and Related Financing Activities</u></b>	
Proceeds from capital debt	2,123,127
Grant proceeds	650,000
Contributed capital	3,000
Gain from disposal of assets	5,400
Capitalized interest paid on debt	(84,803)
Interest paid on debt	(63,008)
Principal paid on capital debt	(1,963,613)
Acquisition of property, plant, and equipment	(792,737)
Net Cash Used by Capital and Related Financing Activities	(122,634)
<b><u>Cash Flows From Investing Activities</u></b>	
Income received on investments	1,685
Net Cash Used By Investing Activities	1,685
<b><u>Net Increase (Decrease) in Cash Equivalents</u></b>	218,683
<b><u>Cash Equivalents-Beginning of Year</u></b>	514,919
<b><u>Cash Equivalents-End of Year</u></b>	\$ 733,602
<b><u>Reconciliation of Operating Income to Net Cash Provided</u></b>	
<b><u>By Operating Activities</u></b>	
Operating Income (Loss)	\$ 118,620
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	227,982
Change in assets and liabilities	
Decrease (increase) in accounts receivable	(32,196)
Decrease (increase) in inventory	(96)
Decrease (increase) in prepayments	(1,457)
Decrease (increase) in deferred outflows of resources	(79,033)
Increase (decrease) in accounts payable	(26,200)
Increase (decrease) in customer deposits	50
Increase (decrease) in accrued liabilities	(38)
Increase (decrease) in deferred pension liability	94,843
Increase (decrease) in deferred inflows of pensions	37,157
Net Cash Provided By Operating Activities	\$ 339,632
<b><u>Reconciliation of Total Cash</u></b>	
Current Assets - Cash	\$ 483,269
Restricted Assets - Cash	250,333
Total Cash	\$ 733,602

**Non-cash Investing, Capital and Related Financing Activities - None**

See accompanying notes to financial statements.

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Lyon County Water District, (the District), is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Kuttawa, Kentucky and primarily serves the Lyon County, Kentucky area.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below:

**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 District's Board members are appointed by the County Judge Executive, a publicly elected official, 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 Presentation**

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, net position, revenues and expenses. The following funds are used by the District:

*Proprietary Fund Types*

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Position.

**Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

**Reclassifications**

Prior period financial statement amounts have been reclassified to conform to current period presentation. Operating income and net earnings for the prior period were not impacted by the reclassifications.

**Budget**

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2017, the District has complied with budgetary guidelines.

**Cash Equivalents/ Investments**

Cash and cash equivalents are deposited with Branch Banking and Trust Company, and Regions Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

**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 District grants credit to customers, substantially all of whom are residents of Lyon County. Due to the large amount of small account balances, the District does not feel these are at risk for loss due to credit concentrations.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2017 are recorded as prepaid items.

**Post Employment Benefits**

Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

**Capital Assets**

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. 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.

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income 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:

Buildings	20 to 40 years
Equipment	5 to 10 years
Water and Sewer Lines	25 to 40 years

**Unearned Revenue**

The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

**Inventory**

Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

**Restricted Assets**

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. See Note 4 for information describing restricted assets.

**Estimates**

The preparation of the District's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During the year ended December 31, 2017, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

**Bond Discounts/Issuance Costs**

The District adopted GASB 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2013. GASB 65 requires that debt issuance costs be expensed in the period they are incurred.

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

**Pensions**

For purposes of measuring the net pension liability deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System 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 as fair value.

**Net Position**

In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

**Deferred Outflows of Resources and Deferred Inflows of Resources**

**Deferred Outflows of Resources:** In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualify for reporting in this category.

**Deferred Inflows of Resources:** In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred inflows related to pensions are reported on the statement of net position. A deferred inflow from pensions results from net differences between expected and actual earnings on pension plan investments. This amount is deferred and will be recognized as a reduction of pension expense over the next four years.

Deferred inflows related to premium on refinancing debt are reported on the statement of net position. The District incurred a premium when refinancing their debt with Kentucky Rural Water. The balance as of December 31, 2017, was \$39,648 and will be amortized against interest expense over the remaining life of the loan.



**Lyon County Water District**  
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**For the Year Ended December 31, 2017**

GASB Statement No. 80

GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, was issued January 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

GASB Statement No. 81

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued March 2016. The provisions of this Statement are effective for periods beginning after December 15, 2016. This Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split interest agreement.

GASB Statement No. 82

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued March 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement clarifies certain issues that have been raised with previous pronouncements.

**Recent Accounting Pronouncements**

As of December 31, 2017, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 75

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. This Statement replaces Statements No. 45 and 57. The District's management has not yet determined the effect this statement will have on the financial statements. It is estimated that the District's portion of unfunded liability will be approximately \$140,664.

**Subsequent Events**

The District has evaluated subsequent events through August 14, 2018, the date which the financial statements were available to be issued. A system upgrade through Rural Development and Kentucky Infrastructure Authority is in progress. Total expenses as of December 31, 2017 are \$4,709,054.

The District received a grant dated December 21, 2016 for \$91,968. This grant will be used to finish the water project. As of December 31, 2017, the full \$91,968 was receivable.

The final draw from the Kentucky Infrastructure Authority loan totaling \$2,000,000 was made on April 16, 2018. The first payment for this loan will be due December 1, 2018.

**Lyon County Water District**  
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**2. LEGAL COMPLIANCE**

**Deficit Net Position**

There was not a deficit net position for the year ended December 31, 2017.

**3. DEPOSITS AND INVESTMENTS**

**A. Net Position**

The captions on the statement of net position for cash, investments, and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 483,269	\$ -	\$ 483,269
Restricted assets:			
Cash equivalents	250,333	-	250,333
Total	\$ 733,602	\$ -	\$ 733,602

**B. Deposits**

At year-end, the carrying amount of the District's deposits in financial institutions were \$733,602, and the bank balances were \$735,073. Of the bank balances, \$564,255 was covered by federal depository insurance. The remaining \$170,818 was covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

**C. Investments**

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer.

**Lyon County Water District**  
**Notes to the Financial Statements**  
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4. **RESTRICTED NET POSITION**

**Net Assets Restricted for Debt Retirement**

	<u>Depreciation Fund</u>	<u>Sinking Funds</u>	<u>KIA Loan Repayment</u>	<u>Total</u>
Cash equivalents	\$ 136,509	\$ 91,327	\$ 4,797	\$ 232,633
Investments:	-	-	-	-
Totals	<u>\$ 136,509</u>	<u>\$ 91,327</u>	<u>\$ 4,797</u>	<u>\$ 232,633</u>

**Revenue Fund:** All income and revenues derived from the operation of the system shall be deposited promptly and as received to the Lyon County Water Revenue Fund. The monies deposited into the Revenue Fund shall be expended only in the manner and order as follows:

1. Regions Sinking Fund
2. Depreciation Reserve Fund
3. Operation and Maintenance Fund

**Regions Sinking Fund:** The District holds cash deposits in the amount of \$64,255 in the Regions Trust Cash Sweep III (RTCS). RTCS is a bank deposit account offered through Regions Institutional Services. The RTCS does not directly invest in securities. It is a deposit account that is collateralized by government securities. Collateral may include:

- Interest bearing obligations of the U.S. Government
- Senior debt obligations of any U.S. Government Agency,
- And/or municipal securities with an underlying rating of A or better.

RTCS is FDIC Insured up to \$250,000. Deposit account amounts in excess of \$250,000 are secured by perfected liens on Regions Bank's securities in an amount not less than 105% of the total excess deposits. In the event of a default, the collateral reverts to the Collateral Agent to be distributed to the account owners. RTCS deposits are identified as "cash" on client statements; there are no market value fluctuations. The sinking fund was established for the purpose of paying the principal and interest on the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2013 C. The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. A separate sinking fund is to be established for the purpose of paying the principal and interest on the Waterworks Revenue Bonds Series 2016. The District is required to deposit \$845 per month until the account reaches \$101,400. The deposits are to be resumed any time the account falls below \$101,400.

**Depreciation Reserve:** The ordinances requires Lyon County Water District to make monthly contributions to this fund after observing the priority of deposits into the KIA Loan Fund and the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals, or replacements, and the cost of constructing additions, and improvements to the system. The District is to make \$510 monthly deposits until a required minimum balance of \$61,200 is met. The District is to make \$295 monthly deposits over the life of the loan. At December 31, 2017, the balance of the Depreciation Reserve Fund was \$136,509.

**Operations and Maintenance Fund:** Transfers shall be made monthly from the Revenue Fund to the Operations and Maintenance Fund so that the various operation and maintenance expenses of such system are met and a two (2) month operating reserve established and maintained. Any funds remaining in Operation and Maintenance Fund after meeting the expenses of operating such system shall be transferred to the Revenue Fund and disbursed in accordance with the above provisions until such time as the Sinking Fund and Depreciation Fund are current and the required

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

balances established; and then excess funds may be invested in direct obligations of or obligations which are fully guaranteed by the United States Government with such maturities so that moneys shall be available in the respective Funds for the purposes for which same are established.

The new Waterworks Revenue Bonds 2016 require the District to fund an account for short-lived assets by depositing a sum of \$750 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's water system. This short-lived assets reserve amount replaces any previous short-lived assets requirements previously set with any prior RUS loan.

**5. CAPITAL ASSETS**

A summary of proprietary fund property, plant, and equipment at December 31, 2017 for business-type activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 121,772	\$ -	\$ -	\$ 121,772
Construction in progress	4,247,507	495,943	-	4,743,450
Total capital assets, not being depreciated	<u>4,369,279</u>	<u>495,943</u>	<u>-</u>	<u>4,865,222</u>
Capital assets, being depreciated:				
Distribution lines	6,511,187	37,560	(6,700)	6,542,047
Sewer lines	867,726	-	-	867,726
Water tanks	422,707	-	-	422,707
Machinery and equipment	249,954	-	-	249,954
Building	73,976	-	-	73,976
Transportation	87,129	-	-	87,129
Improvement	34,000	-	-	34,000
Total capital assets, being depreciated	<u>8,246,679</u>	<u>37,560</u>	<u>(6,700)</u>	<u>8,277,539</u>
Less accumulated depreciation for:				
Distribution lines	(3,537,082)	(155,666)	3,377	(3,689,371)
Sewer lines	(141,431)	(21,693)	-	(163,124)
Water tanks	(331,966)	(14,464)	-	(346,430)
Machinery and equipment	(116,004)	(20,937)	-	(136,941)
Building	(38,642)	(2,068)	-	(40,710)
Transportation	(58,794)	(9,754)	-	(68,548)
Improvement	(3,967)	(3,400)	-	(7,367)
Total accumulated depreciation	<u>(4,227,886)</u>	<u>(227,982)</u>	<u>3,377</u>	<u>(4,452,491)</u>
Total capital assets, being depreciated, net	<u>4,018,793</u>			<u>3,825,048</u>
Business-type activities capital assets, net	<u>\$ 8,388,072</u>			<u>\$ 8,690,270</u>

Depreciation charged to income was \$227,982.

**Lyon County Water District**  
**Notes to the Financial Statements**  
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**6. CAPITAL LEASES**

In fiscal year 2012, the District entered into a capitalized lease for a backhoe. This lease agreement met the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Amortization of backhoe under capital assets is included as depreciation expense.

Capital assets consisting of a Case backhoe have been capitalized in the amount of \$72,490. This amount represents the present value of the minimum lease payments at the time of acquisition. The accumulated depreciation as of December 31, 2017, for this equipment was \$39,869, leaving a current book value of \$32,620. A corresponding liability is recorded in the financial statements. Principal payments in fiscal year 2017 totaled \$9,317. The lease was paid in full during the year ending December 31, 2017.

**7. DEBT OBLIGATIONS**

**Revenue Bonds Payable**

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2017</u>	<u>Due in One Year</u>
Waterworks Revenue Bonds				
Regions: Series 2013 C	3.5%	2040	\$ 1,155,000	\$ 40,000
USDA: Series 2016	1.875%	2046	<u>1,900,000</u>	<u>-</u>
			<u>\$ 3,055,000</u>	<u>\$ -</u>

Principal and interest requirements of the revenue bonds payable as of December 31, 2017 are:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Premium Amortization</u>	<u>Total</u>	<u>Interest &amp; Fees</u>
2018	\$ 40,000	\$ 1,724	\$ 61,349	\$ 62,679
2019	89,500	1,724	76,773	61,349
2020	90,500	1,724	73,894	76,773
2021	92,000	1,724	71,092	73,894
2022	98,500	1,724	68,154	71,092
2023-2027	535,000	8,619	292,363	308,168
2028-2032	632,000	8,619	213,213	229,858
2033-2037	620,500	8,619	123,368	140,505
2038-2042	482,500	5,171	59,219	69,943
2043-2046	374,500	-	13,834	21,676
Total	<u>\$ 3,055,000</u>	<u>\$ 39,648</u>	<u>\$ 1,053,259</u>	<u>\$ 1,115,937</u>

**Lyon County Water District**  
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*Series 2013 C*

In an ordinance of the Board of Commissioners, adopted on October 3, 1995, the District authorized and thereafter issued its \$996,000 "Water Revenue Bonds, Series 1995" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999, shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

In an ordinance of the Board of Commissioners, adopted on September 13, 2002, the District authorized and thereafter issued its \$594,000 "Water Revenue Bonds, Series 2002" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999, shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

Both bonds were refinanced for \$1,305,000 under Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds Series 2013 C as of March 27, 2013.

The Series 2013 C bond, referred to above, mature as to principal in installments on January 1, in each of the years and shall bear interest from their issue dates until payment of principal. Interest is payable semiannually on June 1 and January 1, of each year as established by the ordinance.

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Note 4.

If there is any default in the payment of the principal or interest on any of the outstanding bonds and suit is filed by a holder of said bond the court-having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution and the provisions of the applicable laws of Kentucky.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable. The District must maintain adequate public liability insurance including fire, windstorm, fidelity bonds, and the hazards covered by a standard extended coverage policy. The bond covenant also requires an audit of the books of record and account pertinent to the system of the District within 60 days of year-end.

*Series 2016*

On December 31, 2016, the District issued \$1,900,000 Waterworks Revenue Bonds, Series 2016, for the purpose of extensions, additions, and improvements to the existing waterworks system. The bonds have an interest rate of 1.875% and will mature on January 1, 2046. The bond issue calls for semiannual interest payments and annual principal payments. The bonds require the District to establish an additional sinking fund to pay the principal and interest on the bonds. The first principal payment will be due January 1, 2019.

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

**BBT Governmental Finance**

In September 2015, the District entered into a note payable with BBT Governmental Finance to purchase a Dump Truck. The note payable was for \$42,683 and bears interest of 1.97%. Final principal payment is due September 16, 2018. The principal balance at December 31, 2017 is \$10,909.

**Lyon County Fiscal Court**

The District entered into an agreement with Lyon County Fiscal Court in May 2001. The fiscal court obtained a lease through KY Association of Counties to refinance previous indebtedness for water system improvements. The District agreed to pay the fiscal court the annual amount of the lease payment. The lease was paid in full January 2017.

Description	Interest Rate	Maturity Date	Balance 12/31/2017	Due in One Year
BBT Governmental Finance	1.97%	2018	\$ 10,909	\$ 10,909
Total			10,909	\$ 10,909
Less current portion			(10,909)	
Long-term portion			\$ -	

Principal and interest requirements of the revenue bonds payable as of December 31, 2017 are:

Year Ending December 31,	Principal	Interest & Fees	Total
2018	\$ 10,909	\$ 90	\$ 10,999

**Changes in Business-Type Activities Debt**

A summary of changes in the business-type activities debt for the year ended December 31, 2017 follows:

	Balance 12/31/2016	Debt Proceeds	Principal Payments	Balance 12/31/2017	Due Within One Year
<b><u>Business-Type Activities:</u></b>					
Capital Lease	\$ 9,317	\$ -	\$ 9,317	\$ -	\$ -
Revenue Bonds Payable	3,095,000	-	40,000	3,055,000	40,000
BBT Governmental Finance	25,205	-	14,296	10,909	10,909
Total Business-Type Activities	\$ 3,129,522	\$ -	\$ 63,613	\$ 3,065,909	\$ 50,909

Interest expense for the year was \$47,963.

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

**8. INTERIM DEBT**

The District entered into a short-term interim financing with Kentucky Infrastructure Authority in 2013 to pay engineering costs associated with a system upgrade. The loan was extended in 2016 to finance the extensions, additions, and improvements to the waterworks system. The total amount to be financed is \$2,000,000, of which \$1,990,000 has been received or is receivable as of December 31, 2017.

The District entered into an agreement with Kentucky Rural Water Finance Corporation to provide the interim financing during the construction phase of the project. The total amount financed was \$1,900,000 and is to be paid in full upon completion of the project when the water revenue bonds are issued. The bonds were issued December 31, 2016, and the loan was paid in full January 6, 2017.

Interest of \$84,803 was capitalized during 2017.

	<u>Balance</u> <u>12/31/2016</u>	<u>Debt</u> <u>Proceeds</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12/31/2017</u>	<u>Due Within</u> <u>One Year</u>
KIA Interim Financing	\$ 1,765,125	\$ 224,875	\$ -	\$ 1,990,000	\$ 40,911
KY Rural Water Finance	<u>1,900,000</u>	<u>-</u>	<u>1,900,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,665,125</u>	<u>\$ 224,875</u>	<u>\$ 1,900,000</u>	<u>\$ 1,990,000</u>	<u>\$ 40,911</u>

**9. EMPLOYEES' RETIREMENT PLAN**

**County Employees' Retirement System**

*Plan description.* The Lyon County Water 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 Systems Board of Trustees (KRS Board) established pursuant to Kentucky Revised Statutes (KRS) Section 78.630. KRS Section 61.645 grants the authority to establish and amend the benefit terms to the Kentucky Retirement Systems (Board). All District employees participating in the CERS are classified as having either a hazardous or nonhazardous position for the purpose of KRS 61.592. Kentucky Retirement Systems issues a publicly available comprehensive annual financial report containing CERS information that can be obtained at <https://kyret.ky.gov>.

*Benefits provided.* Nonhazardous position employees who have attained age 65 and have acquired at least 4 years of credit service of which 1 year must be current service are eligible for an annual retirement benefit, payable monthly for life. The benefit is computed by the number of years of service multiplied by 1.85% then multiplied by the average annual salary during the member's five highest paid fiscal years. Benefits fully vest upon reaching 5 years of credited service, one of which must be current service. Vested members may retire at or after age 55 with 5 years of credited service, of which 1 year must be current service, and receive reduced benefits. CERS also provides death and disability benefits. Benefits are established by the Kentucky Statutes.

If a member's employment is terminated before the member is eligible for any other benefits under CERS, the member shall receive a refund of his/her member contributions with credited interest at 3% compounded annually through June 30, 1981, 6% thereafter through June 30, 1986, and 4% thereafter.



**Lyon County Water District**  
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*Funding policy.* Covered employees who began participating prior to September 1, 2008, are required by state statute to contribute 5% of their salary to CERS. Covered employees who began participating on, or after, September 1, 2008, are required by state statute to contribute 6% of their salary to CERS. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund.

Covered employees who began participation on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Employee contribution rates are 5% for those classified as nonhazardous and 1% to the health insurance fund which is not credited to the employee's account and is not refundable. The employer contribution rate is set annually by the KRS Board based on an actuarial valuation. The employer contributes a set percentage of the employee's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the employee's account equal to 4% for those classified as nonhazardous. The employer pay credit represents a portion of the total employer contribution.

Employers are required by state statute (KRS 78.545) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations. For the year ended December 31, 2017, the employer contribution rate was 18.68% and 19.18%, respectively, of member's nonhazardous and hazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. District employer CERS pension contributions for the year ended December 31, 2017 were \$37,341 which was 100% funded.

*Refunds of contributions.* Employees who have terminated service as a contribution member of CERS may file an application for a refund of their contributions. Employee accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1981; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For employees participating prior to September 1, 2008, the interest paid is set by the KRS Board and will not be less than 2%, for employees participating on or after September 1, 2008 but before January 1, 2014, interest will be credited at a rate of 2.5%. For employees participating on or after January 1, 2014, interest will be credited at a minimum rate of 4%.

*Pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources related to pensions.* At December 31, 2017, the District reported a liability of \$409,556 for its proportionate share of the 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 liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's share of contributions to CERS relative to the total contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was .006997%, which was an increase of 0.000605% from its proportion measured June 30, 2016.

*Pension expense.* As a result of its requirement to contribute to CERS, the District recognized pension expenses of \$82,479 for the year ended December 31, 2017. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

**Lyon County Water District**  
**Notes to the Financial Statements**  
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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 508	\$ 10,396
Changes of assumptions	75,574	-
Net difference between projected and actual earnings on plan investments	32,436	27,371
Changes in proportion and differences between District contributions and proportionate share of contributions	32,154	311
District contributions subsequent to the measurement date	<u>21,889</u>	<u>-</u>
Totals	<u>\$ 162,561</u>	<u>\$ 38,078</u>

*Deferred Outflows of Resources.* The \$21,889 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending</u>	
December 31, 2018	\$ 48,119
December 31, 2019	42,323
December 31, 2020	17,412
December 31, 2021	<u>(5,260)</u>
Total	<u>\$ 102,594</u>

*Actuarial assumptions.* For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuation results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

**Lyon County Water District**  
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Inflation	2.30%
Salary increases	3.05%, average
Investment rate of return	6.25% for CERS non-hazardous

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated August 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 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 cover a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change, absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	5.25%
Cash	2%	(0.25%)
	<u>100%</u>	

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

*Discount Rate.* The discount rate used to measure the total pension liability for the plan was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District's proportionate share of the 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:

	1% Decrease	Current Discount Rate 6.25%	1% Increase
The District's proportionate share of the net pension liability	<u>5.25%</u>	<u>Rate 6.25%</u>	<u>7.25%</u>
	\$ 516,539	\$ 409,556	\$ 320,066

*Payables to the pension plan.* At December 31, 2017, the financial statements include \$4,006 in contractually required employee and employer contributions primarily for the month ended December 31, 2017. The obligation was paid within prescribed time limits.

*Postretirement healthcare benefits.* In addition to the pension benefits described above, the KRS provides postretirement healthcare benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund). The Insurance Fund was established to provide hospital and medical insurance for those receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the year ended June 30, 2017 (the date of the latest available information), insurance premiums withheld from benefit payments for those receiving benefits from CERS were \$22,900,000 for nonhazardous, respectively. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous employees killed in the line of duty. As of June 30, 2017, the Insurance Fund had 106,234 retirees and beneficiaries for whom benefits were available.

The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are shown below:

<u>Service Period</u>	<u>% paid by Insurance Fund</u>
20 or more years	100%
15-19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

As a result of House Bill 290 (2004) Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, nonhazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November, 1992, the Board adopted a fixed percentage rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the KRS Board adopted a policy to increase the insurance rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the KRS Board voted to cease self-funding of healthcare benefits for most Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

**10. COMMITMENTS**

**Contracts for Water Supply**

The District entered into contracts with the City of Eddyville, the City of Kuttawa, the City of Princeton, and the Crittenden-Livingston Water District which states that the Cities and Water District will provide water to the District.

**11. CONTINGENCIES**

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2017, there have been no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from grant funds are recognized and are recorded as revenue.

**12. PUBLIC SERVICE COMMISSION REGULATIONS**

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2016 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

**Lyon County Water District**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2017**

**13. ECONOMIC DEPENDENCIES**

The majority of the District's revenue consists of charges for water-related services to customers in Lyon County, Kentucky. For the year ended December 31, 2017, the revenues from these sources totaled \$1,244,219. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

**14. COMPENSATED ABSENCES**

The District grants employees vacation time based on years of service. Full-time employees are entitled to vacation pay according to the following schedule:

1 to 5 years	12 days
6+ years	15 days

Employees are allowed to carryforward 80 hours of vacation time. Upon termination of employment, an employee will be paid for all unused vacation leave. The liability for unused vacation time at December 31, 2017 was \$3,938.

The District's policy on sick pay states that employees will be granted 1/2 sick day per month. Employees are allowed to carryforward 240 hours of sick time. Sick leave is forfeited upon termination of employment. The liability for unused sick time at December 31, 2017 was \$2,463.

**15. LITIGATION**

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Lyon County Water District**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position - Budget and Actual**  
**For the Year Ended December 31, 2017**

	2017			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b><u>Revenues:</u></b>				
Water revenues	\$ 1,114,000	\$ 1,114,000	\$ 1,244,219	\$ 130,219
Other	850	850	50	(800)
Total Operating Revenues	<u>1,114,850</u>	<u>1,114,850</u>	<u>1,244,269</u>	<u>129,419</u>
<b><u>Operating Expenses</u></b>				
Water expenses	950,200	960,200	869,853	90,347
Depreciation	225,000	225,000	227,982	(2,982)
Wastewater expenses	20,000	20,000	15,270	4,730
Payroll and other taxes	12,000	12,000	12,544	(544)
Total Operating Expenses	<u>1,207,200</u>	<u>1,217,200</u>	<u>1,125,649</u>	<u>91,551</u>
<b><u>Operating Income (Loss)</u></b>	<u>(92,350)</u>	<u>(102,350)</u>	<u>118,620</u>	<u>220,970</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Investment income	200	200	1,685	1,485
Proceeds from sale of assets	-	-	2,078	2,078
Interest on debt	(60,000)	(130,000)	(47,963)	82,037
Total Nonoperating Revenue (Expenses)	<u>(59,800)</u>	<u>(129,800)</u>	<u>(44,200)</u>	<u>85,600</u>
<b><u>Net Income before Capital Contributions</u></b>	<u>(152,150)</u>	<u>(232,150)</u>	<u>74,420</u>	<u>306,570</u>
<b><u>Capital Contributions</u></b>				
Construction grants	300,000	300,000	212,679	(87,321)
Tap-on fees	15,000	15,000	3,000	(12,000)
Total Capital Contributions	<u>315,000</u>	<u>315,000</u>	<u>215,679</u>	<u>(99,321)</u>
<b><u>Change in Net Position</u></b>	<u>\$ 162,850</u>	<u>\$ 82,850</u>	<u>290,099</u>	<u>\$ 207,249</u>
<b><u>Net Position-Beginning of Year</u></b>			<u>3,790,591</u>	
<b><u>Net Position-End of Year</u></b>			<u>\$ 4,080,690</u>	



**Lyon County Water District**  
**Schedule of the Proportionate Share**  
**of the Net Pension Liability**  
**For the Year Ended December 31, 2017**

**County Employee Retirement System**  
**Last Four Years (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)	0.006997%	0.00639%	0.00551%	0.005572%
Employer's proportionate share of the net pension liability (asset)	\$ 409,556	\$ 314,713	\$ 237,005	\$ 180,777
Employer's covered-employee payroll	\$ 158,492	\$ 175,888	\$ 139,779	\$ 150,398
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	258.41%	178.92%	169.55%	169.55%
Plan fiduciary net position as a percentage of the total pension liability (2)	53.30%	55.50%	59.97%	66.80%

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

(1) The amounts presented for the fiscal year were determined as of the fiscal year ending June 30, 2017.

(2) This will be the same percentage for all participant employers in the CERS plan.

**Lyon County Water District**  
**Schedule of Pension Contributions**  
**For the Year Ended December 31, 2017**

**County Employee Retirement System**  
**Last Four Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 37,341	\$ 38,528	\$ 31,224	30,661
Contributions in relation to the contractually required contribution	<u>37,341</u>	<u>38,528</u>	<u>31,224</u>	<u>30,661</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 158,492	\$ 175,888	\$ 139,779	\$ 150,398
Contribution as a percentage of covered-employee payroll	18.86%/	17.06%/	17.67%/	18.89%/
	19.18%	18.86%	17.06%	17.67%

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

## Notes to the Required Supplementary Information

### Notes Related to Schedule of the Lyon County Water District's Proportionate Share of the Net Pension Liability - County Employee Retirement System of the KRS

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015: None

*Changes of assumption:* The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates, and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rate of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience

### Notes to the Schedule of the Lyon County Water District's Contributions - County Employee Retirement Systems of KRS

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation date	June 30, 2015
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	28 years, closed
Payroll growth rate	4.00%
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00%, average
Investment Rate of Return	7.50% for CERS non-hazardous

**JESSICA K. DANIEL, CPA PSC**  
CERTIFIED PUBLIC ACCOUNTANT

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

To the Board of Commissioners  
Lyon County Water District  
Kuttawa, 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 Lyon County Water District, as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the Lyon County Water District's basic financial statements, and have issued our report thereon dated August 14, 2018.

*Internal Control Over Financial Reporting*

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (2017-1).

*Compliance and Other Matters*

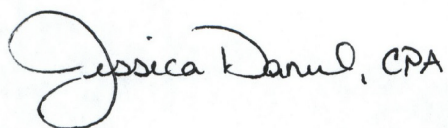
As part of obtaining reasonable assurance about whether the Lyon County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 that are required to be reported under *Government Auditing Standards*.

*Lyon County Water District's Response to Findings*

Lyon County Water District's response to findings identified in our audit described in the accompanying schedule of findings and responses. The 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.

A handwritten signature in black ink that reads "Jessica Daniel, CPA". The signature is written in a cursive style with a large, looping initial "J".

Eddyville, Kentucky  
August 14, 2018

**Lyon County Water District**  
**Schedule of Findings and Responses**  
**For The Year Ended December 31, 2017**

**2017-1 Segregation of Duties**

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We agree with the finding and have put in place certain compensating controls to help alleviate exposure. A third party accounting firm has been contracted to provide office staff, bookkeeping, payroll, and preparing monthly reports for Board review.