

LYON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

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, 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 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the District has implemented Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, during the year ended December 31, 2018. This standard requires measuring the other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to the plan, OPEB expense, including information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position within the financial statements. The cumulative effect of applying GASB 75 is presented as a restatement of beginning net position. 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 budgetary comparison information, schedule of pension contributions, schedule of other postemployment benefits contributions, schedule of proportionate share of net pension liability, and schedule of proportionate share of other postemployment benefits liability on pages 3 through 6 and 34 through 38 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 7, 2019, 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.



Eddyville, Kentucky
August 7, 2019

**LYON COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(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, 2018. 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, 2018, by \$3,711,738 (Net Position).
- The District's total net position decreased by \$234,940 during the year compared to a \$290,099 increase in the prior year.
- The District's operating revenues decreased by \$12,494 over the prior year from \$1,244,269 to \$1,231,775.

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 11-32 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 34-38.

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 \$3,711,738 as of December 31, 2018.

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

LYON COUNTY WATER DISTRICT'S NET POSITION

	2018	2017
Assets		
Current and other assets	\$ 653,291	\$ 713,362
Capital assets	8,440,420	8,690,270
Restricted assets	<u>264,796</u>	<u>369,212</u>
Total Assets	<u>9,358,507</u>	<u>9,772,844</u>
Deferred Outflows of Resources	<u>130,304</u>	<u>162,561</u>
Liabilities		
Other liabilities	134,977	2,295,124
Current portion of long-term debt	198,469	50,909
Long-term liabilities	<u>5,332,184</u>	<u>3,430,956</u>
Total Liabilities	<u>5,665,630</u>	<u>5,776,989</u>
Deferred Inflows of Resources	<u>111,443</u>	<u>77,726</u>
Net Position		
Net investment in capital assets	3,393,633	3,594,713
Restricted	281,670	385,758
Unrestricted	<u>36,435</u>	<u>100,219</u>
Total Net Position	<u>\$ 3,711,738</u>	<u>\$ 4,080,690</u>

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 \$3,393,633. 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 \$281,670 represents resources that are subject to external restriction on how they may be used. These resources are to be used for debt restrictions, capital projects, customer deposits, and prepaid expenses.

The District's unrestricted net assets as of December 31, 2018 is a \$36,435.

Analysis of the District's Operations – Overall the District had a decrease in net position of \$234,940.

The following table provides a summary of the District's operations for the year ended December 31, 2018 and 2017.

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

	<u>2018</u>	<u>2017</u>
Revenues		
Operating revenues	\$ 1,231,775	\$ 1,244,269
Investment income	2,956	1,685
Gain (loss) on sale of assets	-	2,078
Capital grants and contributions	<u>700</u>	<u>215,679</u>
Total revenues	<u>1,235,431</u>	<u>1,463,711</u>
Expenses		
Water expenses	976,347	869,853
Depreciation and amortization	328,032	227,982
Interest expense	137,430	47,963
Payroll and other taxes	14,601	12,544
Wastewater expenses	<u>13,961</u>	<u>15,270</u>
Total Expenses	<u>1,470,371</u>	<u>1,173,612</u>
Change in net position	(234,940)	290,099
Net position - January 1, restated	<u>3,946,678</u>	<u>3,790,591</u>
Net position - December 31	<u>\$ 3,711,738</u>	<u>\$ 4,080,690</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District's investment in capital assets for business-type activities as of December 31, 2018, amounts to \$8,440,422 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure.

	<u>2018</u>	<u>2017</u> (restated)
Business-type activities		
Capital assets, not being depreciated		
Land	\$ 121,772	\$ 121,772
Construction in progress	<u>34,396</u>	<u>4,743,450</u>
Total capital assets, not being depreciated	<u>156,168</u>	<u>4,865,222</u>
Capital assets, being depreciated		
Distribution lines	7,328,921	2,840,356
Sewer lines	682,908	704,601
Water tanks	61,813	76,277
Equipment	145,100	113,013
Building	31,278	33,267
Transportation	10,999	18,581
Improvements	<u>23,233</u>	<u>26,633</u>
Total capital assets, being depreciated	<u>8,284,252</u>	<u>3,812,728</u>
Business-type activities capital assets, net	<u>\$ 8,440,420</u>	<u>\$ 8,677,950</u>

During the year ended December 31, 2018, the District acquired assets totaling \$90,504. The project for extensions, additions, and improvements to the existing waterworks system was completed in March 2018 and \$4,716,835 was transferred from work-in-process and depreciation began.

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 \$5,008,863. Long-term debt at December 31, 2018, was as follows:

	<u>2018</u>	<u>2017</u>
<u>Long-Term Debt</u>		
KY Rural Water	\$ 1,115,000	\$ 1,155,000
USDA Bond Series 2016	1,900,000	1,900,000
Kentucky Infrastructure Authority	1,959,089	-
BBT Governmental Finance	-	10,909
Capital Lease	<u>34,774</u>	<u>-</u>
Total Long-Term Debt	5,008,863	3,065,909
<u>Interim Financing</u>		
Kentucky Infrastructure Authority	<u>-</u>	<u>1,990,000</u>
Total Interim Financing	<u>-</u>	<u>1,990,000</u>
Total Debt	<u>\$ 5,008,863</u>	<u>\$ 5,055,909</u>

The Kentucky Infrastructure Authority agreement was completed in 2018. The total amount of financed is \$2,000,000 with an interest rate of 2.0%. The first principal payment was made in 2018 and will be paid in full in 2038.

Interest expense of \$137,430 was incurred during the year ended December 31, 2018.

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, 2018

<u>Assets</u>	<u>2018</u>
Current Assets	
Cash equivalents	\$ 427,791
Customer accounts receivable	106,524
Unbilled revenue	70,807
Inventory	30,735
Prepayments	16,874
Restricted assets	
Cash equivalents	<u>264,796</u>
Total current assets	<u>917,527</u>
Noncurrent Assets	
Capital assets, net of depreciation	<u>8,440,420</u>
Total noncurrent liabilities	<u>8,440,420</u>
Other Assets	
Deposits	<u>560</u>
Total other assets	<u>560</u>
Total Assets	<u>9,358,507</u>
<u>Deferred Outflows of Resources</u>	
Related to pensions and other postemployment benefits	<u>130,304</u>
Total deferred outflows of resources	<u>130,304</u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	67,885
Accrued interest on debt	39,725
Accrued liabilities	9,817
Customers' deposits	17,550
Long-term debt due in one year	<u>198,469</u>
Total current liabilities	<u>333,446</u>
Noncurrent Liabilities	
Compensated absences	6,896
Long-term debt due after one year	4,810,394
Net pension and other postemployment benefit liabilities	<u>514,894</u>
Total noncurrent liabilities	<u>5,332,184</u>
Total Liabilities	<u>5,665,630</u>
<u>Deferred Inflows of Resources</u>	
Related to debt	37,924
Related to pensions and other postemployment benefits	<u>73,519</u>
Total deferred inflows of resources	<u>111,443</u>

See accompanying notes to financial statements.

Lyon County Water District
Statement of Net Position
December 31, 2018

Net Position

Net investment in capital assets	3,393,633
Restricted for	
Debt service	247,246
Customer deposits	17,550
Prepaid expenses	16,874
Unrestricted	<u>36,435</u>
Total Net Position	<u>\$ 3,711,738</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, 2018

	<u>2018</u>
<u>Operating Revenue</u>	
Water revenues	\$ 1,231,725
Other	<u>50</u>
Total Operating Revenues	<u>1,231,775</u>
<u>Operating Expenses</u>	
Water expenses	976,347
Depreciation	328,032
Payroll and other taxes	14,601
Wastewater expenses	<u>13,961</u>
Total Operating Expenses	<u>1,332,941</u>
<u>Operating Income (Loss)</u>	<u>(101,166)</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	2,956
Interest on debt	<u>(137,430)</u>
Total Nonoperating Revenue (Expenses)	<u>(134,474)</u>
<u>Net Income Before Capital Contributions</u>	<u>(235,640)</u>
<u>Capital Contributions</u>	
Tap-on fees	<u>700</u>
Total Capital Contributions	<u>700</u>
<u>Change in Net Position</u>	(234,940)
<u>Net Position-Beginning of Year</u>	4,080,690
<u>Prior period adjustments (See Note 15)</u>	<u>(134,012)</u>
<u>Net Position-End of Year</u>	<u>\$ 3,711,738</u>

See accompanying notes to financial statements.

Lyon County Water District
Statement of Cash Flows
For the Year Ended December 31, 2018

	<u>2018</u>
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 1,241,366
Cash payments to suppliers for goods and services	(862,339)
Cash payments to employees for services	(163,260)
Net Cash Provided By Operating Activities	<u>215,767</u>
<u>Cash Flows From Capital and Related Financing Activities</u>	
Proceeds from capital debt	54,156
Contributed capital	700
Interest paid on debt	(122,888)
Principal paid on capital debt	(101,202)
Acquisition of property, plant, and equipment	(90,504)
Net Cash Used by Capital and Related Financing Activities	<u>(259,738)</u>
<u>Cash Flows From Investing Activities</u>	
Income received on investments	<u>2,956</u>
Net Cash Used By Investing Activities	<u>2,956</u>
<u>Net Increase (Decrease) in Cash Equivalents</u>	(41,015)
<u>Cash Equivalents-Beginning of Year</u>	<u>733,602</u>
<u>Cash Equivalents-End of Year</u>	<u>\$ 692,587</u>
<u>Reconciliation of Operating Income to Net Cash Provided</u>	
<u>By Operating Activities</u>	
Operating Income (Loss)	\$ (101,166)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	328,032
Change in assets and liabilities	
Decrease (increase) in accounts receivable	9,741
Decrease (increase) in inventory	(4,820)
Decrease (increase) in prepayments	(328)
Decrease (increase) in deferred outflows of resources	58,593
Increase (decrease) in accounts payable	(64,547)
Increase (decrease) in customer deposits	(150)
Increase (decrease) in accrued liabilities	(2,338)
Increase (decrease) in deferred pension and OPEB liabilities	(35,326)
Increase (decrease) in deferred inflows of pensions	28,076
Net Cash Provided By Operating Activities	<u>\$ 215,767</u>
<u>Reconciliation of Total Cash</u>	
Current Assets - Cash	\$ 427,791
Restricted Assets - Cash	<u>264,796</u>
Total Cash	<u>\$ 692,587</u>

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, 2018

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, 2018

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, 2018, 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 uncollectible accounts. No allowance for uncollectible 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, 2018 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, 2018

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, 2018, 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, 2018

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, 2018, was \$37,924 and will be amortized against interest expense over the remaining life of the loan.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Adoption of New Accounting Pronouncements

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 effect this statement had on the financial statements as of December 31, 2017 was \$113,104.

GASB Statement No. 83

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued November 2016. The provisions of this Statement are effective for periods beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

Recent Accounting Pronouncements

As of December 31, 2018, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 87

GASB Statement No. 87, *Leases*, was issued in June 2017. The provisions of this Statement are effective for periods beginning after December 15, 2019. This Statement will increase the usefulness of government financial statements by required reporting of certain lease liabilities that currently are not required. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 88

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued in April 2018. The provisions of this pronouncement are effective for periods beginning after June 15, 2018. This pronouncement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The District's management has not yet determined the effect this pronouncement will have on the financial statements.

Subsequent Events

The District has evaluated subsequent events through August 7, 2019, the date which the financial statements were available to be issued.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

2. LEGAL COMPLIANCE

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2018.

Budgets

Excess of Expenditures Over Appropriations

The District has an excess of actual expenditures over budget for the year ended December 31, 2018 of \$131,741. This excess was due to under budgeted water and depreciation expenses.

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	\$ 427,791	\$ -	\$ 427,791
Restricted assets			
Cash equivalents	<u>264,796</u>	<u>-</u>	<u>264,796</u>
Total	<u>\$ 692,587</u>	<u>\$ -</u>	<u>\$ 692,587</u>

B. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions were \$692,587, and the bank balances were \$695,850. Of the bank balances, \$538,697 was covered by federal depository insurance. The remaining \$157,153 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
For the Year Ended December 31, 2018

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	\$ 147,140	\$ 95,310	\$ 4,796	\$ 247,246
Investments	-	-	-	-
Totals	<u>\$ 147,140</u>	<u>\$ 95,310</u>	<u>\$ 4,796</u>	<u>\$ 247,246</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 \$68,961 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, 2018, the balance of the Depreciation Reserve Fund was \$147,140.

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, 2018

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, 2018 for business-type activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 121,772	\$ -	\$ -	\$ 121,772
Construction in progress	4,743,450	-	(4,709,054)	34,396
Total capital assets, not being depreciated	<u>4,865,222</u>	<u>-</u>	<u>(4,709,054)</u>	<u>156,168</u>
Capital assets, being depreciated				
Distribution lines	6,529,727	4,740,638	-	11,270,365
Sewer lines	867,725	-	-	867,725
Water tanks	422,707	-	-	422,707
Machinery and equipment	249,954	58,919	-	308,873
Building	73,976	-	-	73,976
Transportation	87,129	-	-	87,129
Improvement	34,000	-	-	34,000
Total capital assets, being depreciated	<u>8,265,218</u>	<u>4,799,557</u>	<u>-</u>	<u>13,064,775</u>
Less accumulated depreciation for				
Distribution lines	(3,689,371)	(252,073)	-	(3,941,444)
Sewer lines	(163,124)	(21,693)	-	(184,817)
Water tanks	(346,430)	(14,464)	-	(360,894)
Machinery and equipment	(136,941)	(26,832)	-	(163,773)
Building	(40,709)	(1,989)	-	(42,698)
Transportation	(68,548)	(7,582)	-	(76,130)
Improvement	(7,367)	(3,400)	-	(10,767)
Total accumulated depreciation	<u>(4,452,490)</u>	<u>(328,033)</u>	<u>-</u>	<u>(4,780,523)</u>
Total capital assets, being depreciated, net	<u>3,812,728</u>			<u>8,284,252</u>
Business-type activities capital assets, net	<u>\$ 8,677,950</u>			<u>\$ 8,440,420</u>

Depreciation charged to income was \$328,032.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

6. CAPITAL LEASES

In fiscal year 2018, the District entered into a capitalized lease with Branch Banking and Trust Company for a mini-excavator and trailer. 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 the mini-excavator and trailer under capital assets is included as depreciation expense.

Capital assets consisting of a Kubota U35 Mini Excavator, Hydraulic Angle Blade, and 18' Brook Brothers Trailer have been capitalized in the amount of \$50,155. This amount represents the present value of the minimum lease payments at the time of acquisition. The accumulated depreciation as of December 31, 2018, for this equipment was \$5,851, leaving a current book value of \$44,304. A corresponding liability is recorded in the financial statements. Principal payments in fiscal year 2018 totaled \$9,382.

Description	Interest Rate	Maturity Date	Balance 12/31/2018	Due in One Year
Capital Lease - BBT Governmental Finance	3.81%	2020	\$ 34,774	\$ 25,915
Total			<u>34,774</u>	<u>25,915</u>

7. DEBT OBLIGATIONS

Revenue Bonds Payable

Description	Interest Rate	Maturity Date	Balance 12/31/2018	Due in One Year
Waterworks Revenue Bonds				
Regions - Series 2013 C	3.5%	2040	\$ 1,115,000	\$ 45,000
Kentucky Infrastructure Authority	1.875%	2046	1,959,089	83,054
USDA - Series 2016	2.0%	2046	<u>1,900,000</u>	<u>44,500</u>
Total			<u>\$ 4,974,089</u>	<u>\$ 172,554</u>

Principal and interest requirements of the revenue bonds payable as of December 31, 2018 are:

Year Ending December 31,	Principal	Premium Amortization	Total	Interest & Fees
2019	\$ 172,554	\$ 1,724	\$ 61,349	\$ 120,388
2020	175,223	1,724	76,773	115,631
2021	178,426	1,724	73,894	110,913
2022	186,663	1,724	71,092	106,021
2023	189,936	1,724	68,154	100,829
2024-2028	1,030,530	8,620	292,363	424,736
2029-2033	1,178,491	8,620	213,213	287,719
2034-2038	1,102,766	8,620	123,368	137,498
2039-2043	475,000	3,448	59,219	49,025
2044-2046	284,500	-	13,834	7,655
Total	<u>\$ 4,974,089</u>	<u>\$ 37,928</u>	<u>\$ 1,053,259</u>	<u>\$ 1,460,415</u>

Lyon County Water District
Notes to the Financial Statements
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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, 2018

Kentucky Infrastructure Authority

The District entered into an agreement with Kentucky Infrastructure Authority to finance a system upgrade totaling \$2,000,000. The bonds have an interest rate of 2.0% and will mature on June 1, 2038. The bond issue calls for semiannual interest payments and annual principal payments. The bonds require the District to establish a replacement reserve account. The annual replacement cost is \$5,000 and should be added to the replacement account each December 1 until the balance reaches \$50,000 and maintained for the life of the loan.

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 was made September 16, 2018.

Changes in Business-Type Activities Debt

A summary of changes in the business-type activities debt for the year ended December 31, 2018 follows:

	<u>Balance</u> 12/31/2017	<u>Debt</u> <u>Proceeds</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> 12/31/2018	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities</u>					
Capital Lease - BBT Gov Finance	\$ -	\$ 44,156	\$ 9,382	\$ 34,774	\$ 25,915
Revenue Bonds Payable	5,045,000	10,000	80,911	4,974,089	172,554
BBT Governmental Finance	<u>10,909</u>	<u>-</u>	<u>10,909</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>\$5,055,909</u>	<u>\$ 54,156</u>	<u>\$ 101,202</u>	<u>\$5,008,863</u>	<u>\$ 198,469</u>

Interest expense for the year was \$137,430.

8. 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 that covers all regular full-time members employed in non-hazardous and hazardous positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate.

Under the provisions of Kentucky Revised Statute Sections 61.645, the Board of Trustees (the Board) of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the system are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan, and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

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. CERS provides retirement, health insurance, and death and disability benefits to plan employees and beneficiaries. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Employees are vested in the plan after five years service.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

For retirement purposes, nonhazardous employees are grouped into three tiers, based on hire date.

Nonhazardous members

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

Contributions. State statute requires active members to contribute a percentage of creditable compensation based on the tier:

	<u>Required Contributions</u>
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

Employers are required by state statute 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, 2018, the employer contribution rate was 14.48% and 16.22%, respectively, of member's nonhazardous 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 contributions for the year ended December 31, 2018, were \$27,925 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 if 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, and deferred outflows of resources and deferred inflows of resources related to pensions. At December 31, 2018, the District reported a liability of \$398,671 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2018, the District's proportion was .006546%, which was an decrease of 0.000451% from its proportion measured June 30, 2017.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expenses of \$77,366 for the year ended December 31, 2018. At December 31, 2018, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ 13,004	\$ 5,836
Net differences between projected and actual investment earnings	18,539	23,319
Change of assumption	38,962	-
Changes in proportion and differences between employer contributions and share of contributions	15,028	15,485
Contributions subsequent to the measurement date	<u>14,961</u>	<u>-</u>
Totals	<u>\$ 100,494</u>	<u>\$ 44,640</u>

Deferred Outflows of Resources. The \$14,961 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, 2019. 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, 2019	\$ 37,178
December 31, 2020	13,378
December 31, 2021	(7,524)
December 31, 2022	<u>(2,139)</u>
Total	<u>\$ 40,893</u>

Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

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

Inflation	2.30%
Salary increases	3.05%, average
Investment rate of return	6.25% for CERS non-hazardous
Healthcare Trend Rates:	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 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 long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

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

Discount Rate. The projection of cash flows used to determine the discount rate of 5.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 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>
	\$ 501,886	\$ 398,671	\$ 312,196

Payables to the pension plan. At December 31, 2018, the financial statements include \$741 in contractually required employee contributions primarily for the month ended December 31, 2018. The obligation was paid within prescribed time limits.

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Other Postemployment Benefit Plan (OPEB)

Plan description. Under the provision of Kentucky Revised Statute 61.645 and 61.701, the Board of Trustees (the Board) of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan, and the administrative costs incurred by those receiving an insurance benefit, in accordance with provisions of Kentucky Revised Statute Sections 16.510, 61.515, 61.702, 78,520, and 78.630.

The plan issues publicly available financial statements which may be found at <https://kyret.ky.gov>.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) plan for members that cover all full-time members employed in non-hazardous duty positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plans provide for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Membership in the CERS Non-hazardous Insurance Fund consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

<u>Membership Status</u>	
Inactive plan members currently receiving benefits	33,481
Inactive plan members entitled to but not yet receiving benefits	8,230
Active plan members	<u>81,891</u>
Total plan members	<u><u>123,602</u></u>

Contributions. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. As of December 31, 2018, the employer contribution rate was 4.70% and 5.26%, respectively of members' non-hazardous salaries. The District contributed \$9,046, or 100% off the required contribution to the insurance fund for the year ended December 31, 2018.

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

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Actuarial Assumptions The total OPEB liability, net OPEB liability, and sensitivity information in the June 30, 2018 actuarial valuation was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

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

Inflation	2.30%
Payroll Growth Rate	2.0% CERS Non-hazardous
Salary Increase	3.05% average
Investment Rate of Return	6.25%

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

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

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

Discount Rate. The projection of cash flows used to determine the discount rate of 5.85% for CERS Nonhazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Implicit Subsidy. The fully-insured premiums KRS pays for the KERS, CERS, and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after measurement date. The District's implicit subsidy for the year ended December 31, 2018, was \$1,875.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

OPEB Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources. At December 31, 2018, the District reported a net OPEB liability of \$116,223 for its proportionate share of the CERS net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018. This method is expected to be reflective in the District's long-term contribution effort. At June 30, 2018, the District's proportion was .006546% for nonhazardous classified employees.

For the year ended December 31, 2018, the District recognized OPEB expense of \$11,138. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected & actual earnings on pension plan investments	\$ -	\$ 13,544
Changes of assumptions	23,211	269
Net difference between projected and actual earnings on plan investments	-	8,005
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	7,061
Contributions subsequent to the measurement date, including implicit subsidy	<u>6,599</u>	<u>-</u>
Totals	<u>\$ 29,810</u>	<u>\$ 28,879</u>

The \$6,599 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and the December 31, 2018 implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	
2019	\$ (930)
2020	(930)
2021	(930)
2022	624
2023	(2,351)
Thereafter	<u>(1,151)</u>
	<u>\$ (5,668)</u>

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of present, as well as what the plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.85%) or one percentage point higher (6.85%) than the current rate (5.85%):

	<u>1% Decrease 4.85%</u>	<u>Current Discount Rate 5.85%</u>	<u>1% Increase 6.85%</u>
The District's proportionate share of the net OPEB liability	\$ 150,955	\$ 116,223	\$ 86,638

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate. The following presents the Board's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as, what the Service's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates.

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
The District's proportionate share of the net OPEB liability	\$ 86,529	\$ 116,223	\$ 151,223

Payables to the OPEB plan. At December 31, 2018, the District had paid its contractually required employee and employer contributions primarily for the month ended December 31, 2018, within prescribed time limits.

9. 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.

10. 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, 2018, 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.

11. 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 2017 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, 2018

12. 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, 2018, the revenues from these sources totaled \$1,231,725. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

13. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employee 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, 2018 was \$2,835.

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, 2018 was \$4,061.

14. 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.

15. PRIOR PERIOD ADJUSTMENTS

Correction of an Error

During the year ended December 31, 2018, the District included twelve months of contributions subsequent to the measurement date when reporting deferred outflows related to pensions. A correction has been made to recognize only the required six months.

The cost per meter for new installations in 2017 was overstated by \$12,320. A correction has been made to adjust for this overstatement.

Change in Accounting Principle

During the year ended December 31, 2018, the District implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. GASB Statement No. 75 changed how governments measure and report long-term obligations and annual costs associated with other postemployment benefits they provide. Under the new standard, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Net Position, January 1, 2018		\$ 4,080,690
<u>Correction of an Error</u>		
Adjustment to correct prior year deferred outflows		(8,588)
Adjustment to correct cost of prior year new meters		<u>(12,320)</u>
Cumulative effect of error corrections		(20,908)
<u>Change in Accounting Principle</u>		
Net OPEB Liability	(140,664)	
Deferred outflows of resources related to OPEB	30,608	
Contributions made after the measurement date	4,317	
Deferred inflows of resources related to OPEB	<u>(7,365)</u>	
Cumulative effect of change in accounting principle		<u>(113,104)</u>
Net Position, January 1, 2018 - restated		<u>\$ 3,946,678</u>

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, 2018

	2018			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<u>Revenues</u>				
Water revenues	\$ 1,319,000	\$ 1,319,000	\$ 1,231,725	\$ (87,275)
Other	850	850	50	(800)
Total Operating Revenues	<u>1,319,850</u>	<u>1,319,850</u>	<u>1,231,775</u>	<u>(88,075)</u>
<u>Operating Expenses</u>				
Water expenses	925,700	934,700	976,347	(41,647)
Depreciation	230,000	237,000	328,032	(91,032)
Wastewater expenses	20,000	15,000	13,961	1,039
Payroll and other taxes	12,500	14,500	14,601	(101)
Total Operating Expenses	<u>1,188,200</u>	<u>1,201,200</u>	<u>1,332,941</u>	<u>(131,741)</u>
<u>Operating Income (Loss)</u>	<u>131,650</u>	<u>118,650</u>	<u>(101,166)</u>	<u>(219,816)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	1,500	3,500	2,956	(544)
Interest on debt	(130,000)	(123,500)	(137,430)	(13,930)
Total Nonoperating Revenue (Expenses)	<u>(128,500)</u>	<u>(120,000)</u>	<u>(134,474)</u>	<u>(14,474)</u>
<u>Net Income before Capital Contributions</u>	<u>3,150</u>	<u>(1,350)</u>	<u>(235,640)</u>	<u>(234,290)</u>
<u>Capital Contributions</u>				
Tap-on fees	3,500	3,500	700	(2,800)
Total Capital Contributions	<u>3,500</u>	<u>3,500</u>	<u>700</u>	<u>(2,800)</u>
<u>Change in Net Position</u>	<u>\$ 6,650</u>	<u>\$ 2,150</u>	<u>(234,940)</u>	<u>\$ (237,090)</u>
<u>Net Position-Beginning of Year</u>			4,080,690	
<u>Prior Period Adjustments (See Note 15)</u>			<u>(134,012)</u>	
<u>Net Position-End of Year</u>			<u>\$ 3,711,738</u>	

Lyon County Water District
Schedule of the Proportionate Share
of the Net Pension Liability
For the Year Ended December 31, 2018

County Employee Retirement System
Last Five Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)	0.006546%	0.006997%	0.00639%	0.00551%	0.005572%
Employer's proportionate share of the net pension liability (asset)	\$ 398,671	\$ 409,556	\$ 314,713	\$ 237,005	\$ 180,777
Employer's covered-employee payroll	\$ 181,770	\$ 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	219.33%	258.41%	178.92%	169.55%	169.55%
Plan fiduciary net position as a percentage of the total pension liability (2)	53.54%	53.30%	55.50%	59.97%	66.80%

Note to Schedule: *Changes in assumptions* - In the fiscal year 2018, the CERS Non-Hazardous investment rate and discount rate both decreased from 7.50% to 6.25%, the inflation rate decreased from 3.25% to 2.30%, and the estimated salary increases decreased from 4.00% to 3.05%. In the fiscal year 2016, the CERS Non-Hazardous investment rate and discount rate both decreased from 7.75% to 7.50%, the inflation rate decreased from 3.50% to 3.25%, and the estimated salary increases decreased from 4.50% to 4.00%. Additionally, the mortality tables changed from the 1983 and 1994 Group Annuity Mortality Tables to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (adjusted for males and females).

Note to Schedule: 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.

Note to Schedule: This schedule is based on the measurement date (June 30, 2018) of the collective net pension liability.

(1) 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, 2018

County Employee Retirement System
Last Five Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 27,925	\$ 28,030	\$ 28,511	\$ 22,637	22,229
Contributions in relation to the contractually required contribution	<u>27,925</u>	<u>28,030</u>	<u>28,511</u>	<u>22,637</u>	<u>22,229</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Employer's covered-employee payroll	\$ 181,770	\$ 158,492	\$ 175,888	\$ 139,779	\$ 150,398
Contribution as a percentage of covered-employee payroll	14.48%/ 16.22%	13.95%/ 14.48%	12.42%/ 13.95%	12.75%/ 12.42%	13.74%/ 12.75%

Note to Schedule: 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.

Note to Schedule: Amounts presented were determined as of June 30, 2018.

Lyon County Water District
Schedule of the Proportionate Share
of the Net OPEB Liability
For the Year Ended December 31, 2018

County Employee Retirement System
Last Two Years

	<u>2018</u>	<u>2017</u>
Employer's proportion share of the net OPEB liability (asset)	0.006546%	0.006997%
Employer's proportion share of the net OPEB liability (asset)	\$ 116,223	\$ 140,664
Employer's covered employee payroll	\$ 181,770	\$ 158,492
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	63.94%	88.75%
Plan fiduciary net position as a percentage of the total OPEB liability (1)	57.62%	52.40%

Note to Schedule: *Changes in assumptions* - In the fiscal year 2018, the CERS Non-Hazardous investment rate decreased from 7.50% to 6.25%, the discount rate decreased from 6.89% to 5.84%, the inflation rate decreased from 3.25% to 2.30%, and the estimated salary increases decreased from 4.00% to 3.05%.

Note to Schedule: This schedule is based on the measurement date (June 30, 2018) of the collective net OPEB liability.

Note to Schedule: 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) This will be the same percentage for all participant employees in the CERS plan.

Lyon County Water District
Schedule of OPEB Contributions
For the Year Ended December 31, 2018

County Employee Retirement System
Last Two Years

	<u>2018</u>	<u>2017</u>
Contractually required contributions	\$ 9,046	\$ 9,311
Contributions in relation to the contractually required contributions	<u>9,046</u>	<u>9,311</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Employer's covered employee payroll	\$ 181,770	\$ 443,619
Contributions as a percentage of covered employee payroll	4.70% / 5.26%	4.73% / 4.70%

Notes to Schedule: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the District will present information as it becomes available.

Note to Schedule: Amounts presented were determined as of June 30, 2018.

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

**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, 2018 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 7, 2019.

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. (2018-1).

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 7, 2019

Lyon County Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2018

2018-1 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.