

# McCREARY COUNTY WATER DISTRICT

P.O. Box 488  
Whitley City, KY 42653  
(606) 376-2540

PUBLIC SERVICE COMMISSION  
ANNUAL REPORTS

September 19, 2018

SEP 24 2018

RECEIVED

Mr. Jeff Cline  
PSC  
P.O. Box 615  
Frankfort, KY 40602-0615

RE: McCreary County Water District  
December 31, 2017 and 2016 Annual Report  
Water & Sewer Divisions

Dear Mr. Cline:

Please find enclosed is the McCreary County Water District Independent Auditor's Report and Combined Financial Statements December 31, 2017 and 2016 for both the water and sewer divisions.

If you have any questions, please feel free to contact me at (606) 376-2540.

Sincerely,



Stephen Whitaker, Manager/Supt.  
McCreary County Water District

SW/kt

Enclosure

**PUBLIC SERVICE COMMISSION  
ANNUAL REPORTS**

**SEP 24 2018**

**RECEIVED**

**McCreary County Water District  
Water and Sewer Divisions**

**\* \* \* \***

**Independent Auditor's Report  
and Combined Financial Statements  
December 31, 2017 and 2016**

**FAULKNER, KING, & WENZ, PSC  
CERTIFIED PUBLIC ACCOUNTANTS**

PUBLIC SERVICE COMMISSION  
ANNUAL REPORTS

SEP 24 2018

RECEIVED

McCreary County Water District  
Water and Sewer Divisions

\* \* \* \*

Independent Auditor's Report  
and Combined Financial Statements  
December 31, 2017 and 2016

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

<u>Table of Contents</u>	<u>Page</u>
Management's Discussion and Analysis	1-4
Independent Auditor's Report	5-7
Basic Financial Statements:	
Combined Statements of Net Position	8
Combined Statements of Revenues, Expenses, and Changes in Net Position	9
Combined Statements of Cash Flows	10-11
Notes to Basic Financial Statements	12-28
Supplemental Information:	
Combining Statement of Net Position	29
Combining Statement of Revenues, Expenses, and Changes in Net Position	30
Combining Statement of Cash Flows	31-32
Schedule of Proportionate Share of Net Pension Liability	33
Schedule of Pension Contributions	34
Schedule of Changes in Benefits and Assumptions	35
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	36-37

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

Our discussion and analysis of the McCreary County Water District, Water and Sewer Divisions' financial performance provides an overview of the Company's financial activities for the years ended December 31, 2017 and 2016. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ended December 31, 2017, total operating and non-operating revenues (including capital contributions) totaled \$4,972,957 and operating expenses and non-operating expenses amounted to \$6,177,380, creating a decrease in net position of \$1,204,423. At year end, net position totaled \$28,207,608 of which \$28,510,430 (net of related debt) was invested in capital assets, and \$759,071 was restricted for debt service and construction. This left a net amount of \$(1,061,893) of unrestricted net position.

For the year ended December 31, 2016, total operating and non-operating revenues (including capital contributions) totaled \$5,432,670 and operating expenses and non-operating expenses amounted to \$5,553,688, creating a decrease in net position of \$121,018. At year end, net position totaled \$29,412,031 of which \$29,358,127 (net of related debt) was invested in capital assets, and \$843,202 was restricted for debt service and construction. This left a net amount of \$(789,298) of unrestricted net position.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis, Financial Statements and Supplementary information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of McCreary County Water District, Water and Sewer Divisions report information of the Company using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to utility creditors (liabilities). It also provides the basis for evaluation of the capital structure of the utility and assessing the liquidity and financial flexibility of the utility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the utility's operations over the past year and can be used to determine whether the utility has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

Condensed Comparative Financial Analysis:

McCreary County Water District  
Water and Sewer Divisions  
Statement of Net Position-Summary  
December 31, 2017 and 2016

Assets	<u>2017</u>	<u>2016</u>
Total Current Assets	\$ 1,369,825	\$ 1,397,296
Total Restricted Assets	759,071	843,202
Net Capital Assets	<u>38,710,701</u>	<u>39,931,954</u>
Total Assets	<u>\$ 40,839,597</u>	<u>\$ 42,172,452</u>
 Deferred Outflows of Resources	 <u>649,187</u>	 <u>480,023</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 41,488,784</u>	<u>\$ 42,652,475</u>
 Liabilities		
Total Current Liabilities	\$ 830,179	\$ 867,045
Total Non-current Liabilities	12,375,557	12,342,392
Total Liabilities	<u>\$ 13,205,736</u>	<u>\$ 13,209,437</u>
 Deferred Inflows of Resources	 <u>\$ 75,440</u>	 <u>\$ 31,007</u>
 Net Position:		
Invested in capital assets, net of related debt	\$ 28,510,430	\$ 29,358,127
Restricted for debt service and construction	759,071	843,202
Unrestricted	<u>(1,061,893)</u>	<u>(789,298)</u>
Total Net Position	<u>\$ 28,207,608</u>	<u>\$ 29,412,031</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 41,488,784</u>	 <u>\$ 42,652,475</u>

The largest portion per year (100.00% and 99.82% respectively) of the utility's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The utility used these capital assets to provide services to citizens and consumers. Consequently, these assets are not available for future spending.

Restricted net position per year (2.69% and 2.86% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (-3.76% and -2.68% respectively) of unrestricted net position may be used to meet the utility's ongoing obligations to citizens, consumers and creditors.

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

McCreary County Water District  
Water and Sewer Divisions  
Statement of Operations  
For the Years Ended December 31, 2017 and 2016

	2017	2016
Total operating revenues	\$ 4,179,599	\$ 4,186,432
Total operating expenses	5,728,870	5,233,820
Operating loss	(1,549,271)	(1,047,388)
Total non-operating revenue (expenses)	(39,149)	(271,406)
Loss before capital contributions	(1,588,420)	(1,318,794)
Capital contributions	383,997	1,197,776
Change in net position	(1,204,423)	(121,018)
Beginning of year	29,412,031	29,533,049
End of year	\$ 28,207,608	\$ 29,412,031

During 2017, net position decreased by \$1,204,423 and consisted of an operating loss of (\$1,549,271), net non-operating revenue and expenses of (\$39,149) and capital contributions of \$383,997.

During 2016, net position decreased by \$121,018 and consisted of an operating loss of (\$1,047,388), net non-operating revenues and expenses of (\$271,406) and capital contributions of \$1,197,776.

Capital Asset Changes

At December 31, 2017, the Utility had invested \$38,710,701 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$1,221,253 from the previous year. The net decrease consisted of additions to capital assets of \$479,778 less depreciation expense of \$1,563,447 and \$137,584 in disposals. The additions were mainly financed with proceeds of capital grants.

At December 31, 2016, the Utility had invested \$39,931,954 in capital assets, net of accumulated depreciation. This amount represents a net increase of \$29,782 from the previous year. The net increase consisted of additions to capital assets of \$1,701,381 less depreciation expense of \$1,581,365 and \$90,234 in disposals. The additions were mainly financed with proceeds of capital grants.

Debt Administration

At December 31, 2017, the utility had total debt equal to \$10,200,271 which consisted of \$10,200,271 of bonds outstanding, \$0 of notes payable, and capital leases of \$0. At the beginning of the year total debt equaled \$10,573,827. The decrease in debt of \$373,556 was due to scheduled principal payments of \$373,556.

At December 31, 2016, the utility had total debt equal to \$10,573,827, which consisted of \$10,560,349 of bonds outstanding, \$10,484 of notes payable, and

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

capital leases of \$2,994. At the beginning of the year total debt equaled \$10,688,744. The increase in debt of \$114,917 was due to new debt of \$1,158,000 less scheduled principal payments of \$1,272,917.

Other Matters

During 2015, the District implemented GASB No. 68, Accounting and Financial Reporting for Pensions. This standard requires cost sharing governments to report a net pension liability, pension expense and pension related deferred inflows and outflows of resources based upon their proportionate share of the collection amounts for all the governments in the plan; therefore, included in long term liabilities is a net pension liability of \$2,559,300 for 2017, and \$2,142,121 for 2016.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of McCreary County Water District, Water and Sewer Divisions' finances and to demonstrate the utility's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the McCreary County Water District, Whitley City, Kentucky.



**FAULKNER, KING & WENZ, PSC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**JOSEPH C. KING, CPA**  
**JOHN M. WENZ, CPA**  
**KEVIN M. ROMENESKO, CPA**  
**KAREN S. TRENT, CPA**  
**EUGENE C. WEATHERS, CPA**

**P.O. BOX 285**  
**117 WEST HIGH STREET**  
**MT. STERLING, KY 40353**  
**(859) 498-1836 FAX (859) 498-2116**

**LANA J. McCANN, CPA**  
**ERICA M. SNOWDEN, CPA**  
**JENNIFER T. COLLINGWOOD, CPA**

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653

**Report on the Financial Statements**

We have audited the accompanying combined financial statements of the business-type activities of McCreary County Water District, Water and Sewer Divisions as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
Page 2

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 combined financial statements referred to above present fairly, in all material respects, the respective financial position of McCreary County Water District, Water and Sewer Divisions as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in conformity 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 the schedule of proportionate share of the net pension liability and the schedule of contributions on pages 1 through 4 and 33 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

##### *Other Information*

Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise McCreary County Water District, Water and Sewer Divisions' basic financial statements. The accompanying combining statements of net position, revenues, expenses and changes in net position, and cash flows are presented for purposes of additional analysis, and are not a required part of the combined financial statements of the McCreary County Water District, Water and Sewer Divisions.

McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
Page 3

The combining statements referred to above are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combined financial statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018, on our consideration of McCreary County Water District, Water and Sewer Divisions' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCreary County Water District's internal control over financial reporting and compliance.

***Faulkner, King & Wenz, PSC***

September 10, 2018

**MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 and 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 552,316	\$ 512,828
Unbilled revenues	229,813	231,622
Accounts receivable	359,658	341,552
Other receivables	8,971	61,945
Inventory	192,132	222,660
Prepaid expenses	26,935	26,689
Total current assets	<u>1,369,825</u>	<u>1,397,296</u>
<b>Non-current assets:</b>		
Restricted assets:		
Cash and cash equivalents	420,338	507,877
Investments	338,733	335,325
Capital assets:		
Utility plant	60,565,481	60,091,659
Less accumulated depreciation	(23,741,787)	(22,227,311)
Construction in process	1,887,007	2,067,606
Total non-current assets	<u>39,469,772</u>	<u>40,775,156</u>
<b>Deferred Outflows of Resources:</b>		
Deferred outflows - pension	<u>649,187</u>	<u>480,023</u>
 Total assets and deferred outflows of resources	 <u>\$ 41,488,784</u>	 <u>\$ 42,652,475</u>

**LIABILITIES**

<b>Current liabilities:</b>		
Accounts payable	\$ 158,509	\$ 195,868
Accrued interest	125,072	128,379
Taxes payable	23,254	22,759
Other accrued expenses	105,232	115,861
Customer deposits	34,092	30,622
Capital equipment lease - current	-	2,994
Notes payable - current	-	10,484
Revenue bonds - current portion	384,014	360,078
Total current liabilities	<u>830,179</u>	<u>867,045</u>
<b>Non-current liabilities:</b>		
Revenue bonds - net current portion	9,816,257	10,200,271
Net pension liability	2,559,300	2,142,121
Total non-current liabilities	<u>12,375,557</u>	<u>12,342,392</u>
Total liabilities	<u>13,205,736</u>	<u>13,209,437</u>
 <b>Deferred Inflows of Resources</b>		
Deferred inflows - pension	<u>75,440</u>	<u>31,007</u>

**NET POSITION**

Invested in capital assets, net of related debt	28,510,430	29,358,127
Restricted for debt service and construction	759,071	843,202
Unrestricted	(1,061,893)	(789,298)
Total net position	<u>28,207,608</u>	<u>29,412,031</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 41,488,784</u>	 <u>\$ 42,652,475</u>

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

**McCREARY COUNTY WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

	2017	2016
<b>Operating revenues</b>		
Residential sales	\$ 2,505,558	\$ 2,581,487
Commercial sales	371,926	375,013
Industrial sales	12,230	9,672
Governmental sales	1,161,528	1,121,394
Other sales	128,357	98,866
Total operating revenues	4,179,599	4,186,432
<b>Operating expenses</b>		
General and administrative costs	263,844	223,514
Payroll and related expenses	2,245,056	2,024,422
Repairs and maintenance	119,125	91,839
Other supplies and expenses	1,370,896	1,312,680
Project costs	166,502	-
Depreciation and amortization	1,563,447	1,581,365
Total operating expenses	5,728,870	5,233,820
Operating loss	(1,549,271)	(1,047,388)
<b>Nonoperating revenues (expenses)</b>		
Interest income	8,454	8,507
Other income	400,907	38,352
Gain (loss) on sale of fixed assets	(137,584)	1,603
Interest expense	(310,926)	(319,868)
Net nonoperating expenses	(39,149)	(271,406)
Loss before contributions	(1,588,420)	(1,318,794)
Capital grants received	383,997	1,197,776
Change in net position	(1,204,423)	(121,018)
Total net position beginning of year	29,412,031	29,533,049
Total net position end of year	\$ 28,207,608	\$ 29,412,031

The accompanying notes are an integral part of the financial statements

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 4,184,094	\$ 4,287,426
Operating expenses:		
General and administrative	(263,844)	(223,514)
Payroll and related expenses	(1,952,608)	(1,848,661)
Repairs and maintenance	(119,125)	(91,839)
Project costs	(166,502)	-
Other supplies and expenses	(1,384,631)	(1,472,991)
Net cash provided by operating activities	297,384	650,421
 <b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(479,778)	(1,701,381)
Proceeds from sale of capital assets	-	91,837
Principal paid on debt	(373,556)	(1,272,917)
Proceeds from debt borrowings	-	1,158,000
Interest paid on debt	(314,233)	(331,123)
Capital contributions	383,997	1,197,776
Net cash used in capital and related financing activities	(783,570)	(857,808)
 <b>Cash Flows from Investing Activities</b>		
Interest income from investments	8,454	8,802
Other cash receipts	400,907	38,352
Net cash provided by investing activities	409,361	47,154
 Net decrease in cash and cash equivalents	(76,825)	(160,233)
 Cash and cash equivalents, at beginning of year	1,356,030	1,516,263
 Cash and cash equivalents, at end of year	\$ 1,279,205	\$ 1,356,030
 Unrestricted cash and cash equivalents	\$ 552,316	\$ 512,828
Restricted cash and cash equivalents	759,071	843,202
 Total cash and cash equivalents, at end of year	\$ 1,311,387	\$ 1,356,030

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

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (1,549,271)	\$ (1,047,388)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,563,447	1,581,365
Bad debt expense	32,182	18,963
Change in assets and liabilities:		
Decrease in receivables	4,495	82,031
Decrease (increase) in inventories	30,528	(585)
(Increase) in prepaids	(246)	(1,560)
(Decrease) in accounts payable	(37,359)	(185,595)
Increase (decrease) in customer deposits	3,470	(1,326)
(Decrease) increase in accrued expenses	(10,128)	28,755
Increase in net pension obligation	<u>292,448</u>	<u>175,761</u>
<b>Net cash provided by operating activities</b>	<u>\$ 329,566</u>	<u>\$ 650,421</u>

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the McCreary County Water District, Water and Sewer Divisions (the District) conform to accounting principles generally accepted in the United States of America (GAAP). The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

**Reporting Entity**

The District, consisting of McCreary County Water District Water Division, and McCreary County Water District Sewer Division has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water and sewer service within the confines of McCreary County, Kentucky and East Pine Knot Estates. McCreary County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it: is legally separate; holds corporate powers of organization; the Fiscal Court does not impose their will upon the District; and the District does not impose financial benefit or burden upon the Fiscal Court.

**Basis of Presentation**

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34) established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."



**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The District is an individual fund and is accounted for as a business-type activity fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The District's financial statements are prepared on the accrual basis of accounting. By utilizing this method, revenues are recognized when they are earned, and expenses are recognized as they are incurred.

Operating income reported in the financial statements includes revenues and expenses related to the continuing operation of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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.

**Use of Estimates and Assumptions**

In preparing financial statements that conform with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Accordingly, actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the allowance for doubtful accounts for accounts receivable.

**Compensated Absences**

Vacation - Vacation days are accrued at the following rate:

5 days per year for years	1-3
10 days per year for years	3-10
15 days per year for years	10-15
20 days per year for years	15-xx

These days are carried over if unused to a maximum of 30 days; however, all full-time employees with over three years must take ten days of vacation per year.

Sick - Employees earn one sick day for every two months of employment and may carry over a total of twelve days.

These unpaid compensated absences, if applicable, are recorded as accrued liabilities.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturity of ninety days or less to be cash equivalents.

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management closely monitors outstanding balances and writes off balances that are deemed to be uncollectible. The allowance for doubtful accounts of \$224,540 and \$192,765 for the years ended December 31, 2017 and 2016 has been established to reserve for those balances that the entity believes to be uncollectible.

**Inventories**

Inventories are stated at the lower of cost or market on the basis of "first-in, first-out" (FIFO) inventory method.

**Capital and operating grants**

Grants that are restricted to the purchase of capital assets are recorded as other income, per GASB 33. The District received \$383,997 and \$1,197,776 in grants for the years ended December 31, 2017 and 2016 respectively.

**Capital Assets**

Utility plant is stated at original cost and depreciated over its estimated useful lives using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. Renewals and betterments are capitalized. The range of useful lives used in computing depreciation is:

<u>Classification</u>	<u>Range of lives</u>
Buildings	40 years
Water systems	40 years
Machinery & equipment	5 years

Total depreciation expense was \$1,563,447 and \$1,581,365 for the years ended December 31, 2017 and 2016 respectively.

**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 Employers' Retirement System Plan (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be FDIC insured banking institutions; depositories must fully insure or collateralize all demand and time deposits and repurchase agreements; and securities collateralizing repurchase agreements are to be held by independent third parties.

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

**Bank Deposits**

The fair market value of deposits and investments was equivalent to the reported values. All deposits are checking or savings accounts. The carrying amount of the District's bank deposits was \$1,310,387 and \$1,355,030 for the years ended December 31, 2017 and 2016 respectively and the respective bank balances totaled \$1,402,443 and \$1,460,554 respectively for the years then ended. The bank balances are covered by \$708,774 of FDIC insurance. The remaining bank balances were fully collateralized. The deposits are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Deposits at December 31, 2017, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 108,327	\$ -	\$ 390,932	\$ 499,259	\$ 407,203
Depreciation funds	99,234		44,879	144,113	144,113
Restricted deposits					
Debt service funds	-	-	257,858	257,858	257,858
Depreciation funds	162,480	-	-	162,480	162,480
Investments	<u>338,733</u>	<u>-</u>	<u>-</u>	<u>338,733</u>	<u>338,733</u>
Total deposits	<u>\$ 708,774</u>	<u>\$ -</u>	<u>\$ 693,669</u>	<u>\$ 1,402,443</u>	<u>\$ 1,310,387</u>

Deposits at December 31, 2016, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 108,107	\$ -	\$ 379,283	\$ 487,390	\$ 379,166
Depreciation funds	91,362		41,300	132,662	132,662
Restricted deposits					
Debt service funds	-	-	334,837	334,837	337,537
Depreciation funds	170,340	-	-	170,340	170,340
Investments	<u>335,325</u>	<u>-</u>	<u>-</u>	<u>335,325</u>	<u>335,325</u>
Total deposits	<u>\$ 705,134</u>	<u>\$ -</u>	<u>\$ 755,420</u>	<u>\$ 1,460,554</u>	<u>\$1,355,030</u>

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

The District also had \$1,000 and \$1,000 of petty cash on hand for the years ended December 31, 2017 and 2016 respectively.

**Investments**

At December 31, 2017 and 2016, the District's investments included the Federated Treasury Obligations Fund (a money market fund). The investments are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

- Category 1 - Investments that are insured, registered or for which the securities are held by the District or its agent in the District's name.
- Category 2 - Uninsured and unregistered investments for which the securities are held by the bank's trust departments or agents in the District's name.
- Category 3 - Uninsured and unregistered investments for which the securities are held by the banks, or by their trust departments or agents but not in the District's name.

Investments at December 31, 2017 categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	<u>\$338,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$338,733</u>	<u>\$338,733</u>
Total investments	<u>\$338,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$338,733</u>	<u>\$338,733</u>

Investments at December 31, 2016, categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	<u>\$335,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$335,325</u>	<u>\$335,325</u>
Total investments	<u>\$335,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$335,325</u>	<u>\$335,325</u>

**McCREARY COUNTY WATER DISTRICT  
 WATER AND SEWER DIVISIONS  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS  
 DECEMBER 31, 2017 and 2016**

**NOTE 3 - RESTRICTED ASSETS**

The restricted assets in the accompanying financial statements are restricted as to use by ordinance (Note 7), external parties or by board designation. A schedule of restricted assets at December 31, 2017 and 2016 are:

**A schedule of restricted assets at December 31, 2017 are:**

	Cash	Investments at cost	Total
Debt service funds	\$ 257,858	\$ -	\$ 257,858
Construction funds	-	-	-
Depreciation funds	162,480	-	162,480
Treasury MM fund	-	338,733	338,733
Total restricted assets	<u>\$ 420,338</u>	<u>\$ 338,733</u>	<u>\$ 759,071</u>

**A schedule of restricted assets at December 31, 2016 are:**

	Cash	Investments at cost	Total
Debt service funds	\$ 337,537	\$ -	\$ 337,537
Construction funds	-	-	-
Depreciation funds	170,340	-	170,340
Treasury MM fund	-	335,325	335,325
Total restricted assets	<u>\$ 507,877</u>	<u>\$ 335,325</u>	<u>\$ 843,202</u>

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 4 - CAPITAL ASSETS**

The following represents the activity for the year ended December 31, 2017:

	Balance 12/31/2016	Additions	Disposals	Transfers	Balance 12/31/2017
Operating fixed assets:					
Land	\$ 260,269	\$ -	\$ -	\$ -	\$ 260,269
Buildings & Improvements	19,929,600	-	-	-	19,929,600
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	23,379,185	32,853	(186,555)	564,886	23,790,369
Services/meters	3,752,408	19,356	-	-	3,771,764
Other equipment	<u>9,520,384</u>	<u>43,282</u>	<u>-</u>	<u>-</u>	<u>9,563,666</u>
	60,091,659	95,491	(186,555)	564,886	60,565,481
Accumulated depreciation	<u>(22,227,311)</u>	<u>(1,563,447)</u>	<u>48,971</u>	<u>-</u>	<u>(23,741,787)</u>
	37,864,348	(1,467,956)	(137,584)	564,886	36,823,694
Construction in progress	<u>2,067,606</u>	<u>384,287</u>	<u>-</u>	<u>(564,886)</u>	<u>1,887,007</u>
Utility plant, net	<u>\$39,931,954</u>	<u>\$ (1,083,669)</u>	<u>\$ (137,584)</u>	<u>\$ -</u>	<u>\$38,710,701</u>

The following represents the activity for the year ended December 31, 2016:

	Balance 12/31/2015	Additions	Disposals	Transfers	Balance 12/31/2016
Operating fixed assets:					
Land	\$ 258,269	\$ 2,000	\$ -	\$ -	\$ 260,269
Buildings & Improvements	19,895,627	33,973	-	-	19,929,600
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	22,690,511	637,994	-	50,680	23,379,185
Services/meters	3,719,970	32,438	-	-	3,752,408
Other equipment	<u>9,571,572</u>	<u>40,046</u>	<u>(90,234)</u>	<u>(1,000)</u>	<u>9,520,384</u>
	59,385,762	746,451	(90,234)	49,680	60,091,659
Accumulated depreciation	<u>(20,736,180)</u>	<u>(1,581,365)</u>	<u>90,234</u>	<u>-</u>	<u>(22,227,311)</u>
	38,649,582	(834,914)	-	49,680	37,864,348
Construction in progress	<u>1,252,590</u>	<u>954,930</u>	<u>(90,234)</u>	<u>(49,680)</u>	<u>2,067,606</u>
Utility plant, net	<u>\$39,902,172</u>	<u>\$ 120,016</u>	<u>\$ (90,234)</u>	<u>\$ -</u>	<u>\$39,931,954</u>

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 5 - LONG-TERM DEBT**

Outstanding long-term debt consists of revenue bonds collateralized by the revenues of the District, and one capital lease for equipment. Revenues of the District are to be used first to pay operating and maintenance expenses and second to establish and maintain the revenue bond funds. The District is in compliance with all significant financial requirements as of December 31, 2017.

The District's bonded indebtedness and other long-term debt at December 31, 2017 and 2016, are summarized as follows:

<u>Bond issue</u>	<u>Rate</u>	<u>Original Issue</u>	<u>Principal O/S 2017</u>	<u>Principal O/S 2016</u>
<b>Water District</b>				
Ricoh Financial	12.75%	\$ 9,306	\$ -	\$ 2,994
RD Series 2013 D	Variable	1,415,000	1,050,000	1,145,000
RD 2013 Series A	1.875%	635,000	602,000	613,000
RD 2005 Series A	4.125%	750,000	642,500	654,500
RD 2008 Series A	4.125%	325,000	290,900	295,800
RD 2008 Series A	4.125%	150,000	134,200	136,500
RD Series 2012 D	Variable	3,205,000	2,795,000	2,885,000
RD Series 2012 D-1	Variable	1,935,000	1,235,500	1,257,500
RD Series 2015	2.500%	1,158,000	1,158,000	1,158,000
KIA CD2-01	1.000%	* 1,510,000	654,171	727,549
<b>Sewer District</b>				
RD 2005 Series A	4.125%	290,000	248,000	252,500
RD Series 2012 D	Variable	1,595,000	1,390,000	1,435,000
N/P - UC Bank	6.000%	167,000	-	10,484
		<u>14,041,156</u>	<u>10,200,271</u>	<u>10,573,827</u>
Less current maturities			<u>(384,014)</u>	<u>(373,556)</u>
Total long-term debt			<u>\$ 9,816,257</u>	<u>\$10,200,271</u>

\* The original issue of the KIA CD2-01 loan is \$1,510,000. As of December 31, 2017, the District had borrowed \$1,474,999 of the original amount.

**MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The District's bonded indebtedness and other long-term debt at December 31, 2017 is detailed as follows:

	Principal Balance 12/31/2016	Borrowings	Principal Payments	Principal Balance 12/31/2017	Current	Long-Term
<b>Water District</b>						
Ricoh Finance	\$ 2,994	\$ -	\$ 2,994	\$ -	\$ -	\$ -
2005 Series A	654,500	-	12,000	642,500	12,500	630,000
2008 Series A	295,800	-	4,900	290,900	5,100	285,800
2008 Series A	136,500	-	2,300	134,200	2,300	131,900
2012 Series D	2,885,000	-	90,000	2,795,000	95,000	2,700,000
2012 Series D1	1,257,500	-	22,000	1,235,500	22,500	1,213,000
2013 Series D	613,000	-	11,000	602,000	11,500	590,500
2013 Series A	1,145,000	-	95,000	1,050,000	95,000	955,000
2015 Series	1,158,000	-	-	1,158,000	16,000	1,142,000
KIA F04-03	727,549	-	73,378	654,171	74,114	580,057
Regions Bank	-	-	-	-	-	-
<b>Sewer District</b>						
2005 Series A	252,500	-	4,500	248,000	5,000	243,000
2012 Series D	1,435,000	-	45,000	1,390,000	45,000	1,345,000
N/P - UCB	10,484	-	10,484	-	-	-
	<u>\$10,573,827</u>	<u>\$ -</u>	<u>\$ 373,556</u>	<u>\$10,200,271</u>	<u>\$ 384,014</u>	<u>\$ 9,816,257</u>

The District's bonded indebtedness and other long-term debt at December 31, 2016 is detailed as follows:

	Principal Balance 12/31/2015	Borrowings	Principal Payments	Principal Balance 12/31/2016	Current	Long-Term
<b>Water District</b>						
Ricoh Finance	\$ 5,421	\$ -	\$ 2,427	\$ 2,994	\$ 2,994	\$ -
2005 Series A	666,000	-	11,500	654,500	12,000	642,500
2008 Series A	300,500	-	4,700	295,800	4,900	290,900
2008 Series A	138,700	-	2,200	136,500	2,300	134,200
2012 Series D	2,975,000	-	90,000	2,885,000	95,000	2,790,000
2012 Series D1	1,279,000	-	21,500	1,257,500	22,000	1,235,500
2013 Series D	624,000	-	11,000	613,000	11,000	602,000
2013 Series A	1,235,000	-	90,000	1,145,000	90,000	1,055,000
2015 Series	-	1,158,000	-	1,158,000	-	1,158,000
KIA F04-03	800,198	-	72,649	727,549	73,378	654,171
Regions Bank	896,850	-	896,850	-	-	-
<b>Sewer District</b>						
2005 Series A	257,000	-	4,500	252,500	4,500	248,000
2012 Series D	1,480,000	-	45,000	1,435,000	45,000	1,390,000
N/P - UCB	31,075	-	20,591	10,484	10,484	-
	<u>\$10,688,744</u>	<u>\$1,158,000</u>	<u>\$1,272,917</u>	<u>\$10,573,827</u>	<u>\$ 373,556</u>	<u>\$10,200,271</u>



**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The long-term debt service requirements are as follows:

Year	Principal		Interest		Total	
	Water	Sewer	Water	Sewer	Water	Sewer
2018	\$ 334,014	\$ 50,000	\$ 244,437	\$ 62,414	\$ 581,806	\$ 112,414
2019	348,705	50,000	236,513	60,749	581,863	110,749
2020	353,438	55,500	228,379	59,004	581,817	114,504
2021	361,534	55,500	219,910	57,219	581,444	112,719
2022	374,638	56,000	210,890	55,434	585,528	111,434
2023-2027	1,706,342	318,500	910,420	244,950	2,616,762	563,450
2028-2032	1,339,600	381,500	678,129	179,145	2,017,729	560,645
2033-2037	1,236,600	442,500	458,142	97,250	1,694,742	539,750
2038-2042	1,058,700	200,000	253,109	26,120	1,311,809	226,120
2043-2047	699,000	28,500	129,660	1,891	828,660	30,391
2048-2052	598,700	-	51,075	-	649,775	-
2053-2055	151,000	-	6,418	-	157,418	-
	<u>\$8,562,271</u>	<u>\$1,638,000</u>	<u>\$3,627,082</u>	<u>\$ 844,176</u>	<u>\$12,189,353</u>	<u>\$2,482,176</u>

Ricoh Finance - A capital lease was started on December 30, 2013 for the use of equipment purchased from IKON Office Solutions. The lease bears an interest rate of 12.75% with a life of four years and ended on December 30, 2017.

2005 Series A - McCreary County Water District Waterworks Revenue Bond, dated August 31, 2005, due in annual installments through April 1, 2045, bearing an interest rate of 4.125%.

2008 Series A - McCreary County Water District Waterworks Revenue Bond, dated April 8, 2008, due in annual installments through April 8, 2048 bearing an interest rate of 4.125%

2008 Series A - McCreary County Water District Waterworks Revenue Bond, dated April 8, 2008, due in annual installments through April 8, 2048 bearing an interest rate of 4.125%

2012 Series D - McCreary County Water District Waterworks Revenue Bond, dated May 30, 2012, due in annual installments through January 1, 2040 bearing a variable interest rate.

2012 Series D1 - McCreary County Water District Waterworks Revenue Bond, dated September 30, 2012, due in annual installments through April 1, 2052 bearing a variable interest rate.

2013 Series D - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through October 1, 2052 bearing a variable interest rate.

2013 Series A - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through July 1, 2030 bearing an interest rate of 1.875%.

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

KIA F04-03 Fund F - As of December 31, 2005 the District had drawn \$1,474,999 on a KIA loan secured by a pledge of revenues. The loan bears an interest rate of 1.00% with a life of twenty years maturing in 2026.

2005 Series A - McCreary County Water District Sewer System Revenue Bond, dated August 31, 2005, due in annual installments through January 1, 2045, bearing an interest rate of 4.125%.

2012 Series D - McCreary County Water District Sewer System Revenue Bond, dated May 30, 2012, due in annual installments through February 1, 2041, bearing a variable interest rate.

United Cumberland Bank - Installment loan dated February 9, 2007, due in bi-annual installments through February 9, 2017, bearing an interest rate of 6.0%.

Series 2015 - McCreary County Water District Water System Revenue Bond, dated February 5, 2016, due in annual installments through April 1, 2055, bearing an interest rate of 2.5%.

**NOTE 6 - NET POSITION**

GASB Statement No. 34 (as amended by GASB 63) requires the delineation of Net Position as Invested in Property, Plant and Equipment (capital investments), Restricted and Unrestricted.

The balance of capital investments represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by the District, net of outstanding debt. The balance was \$28,510,430 and \$29,358,127 for the years ended December 31, 2017 and 2016 respectively.

The District has the following restricted net position that is reserved in accordance with the District's various bond ordinances (Note 7):

	<u>2017</u>	<u>2016</u>
Construction	\$ -0-	\$ -0-
Depreciation	162,480	170,340
Debt Service	257,858	337,537
Treasury MM Fund	<u>338,733</u>	<u>335,325</u>
Total Restricted	<u>\$ 759,071</u>	<u>\$ 843,202</u>

The District has a balance of \$(1,061,893) and \$(789,298) for unrestricted net position at December 31, 2017 and 2016 respectively.

**NOTE 7 - COMPLIANCE WITH BOND ORDINANCES**

The District is in compliance with its bond ordinances that require the District to maintain certain reserves and restricted assets as follows:

Bond and Interest Fund - In order to fund the McCreary County Water District and Water Sewer debt, the District makes deposits into these funds to pay for current maturing principal portions and associated interest of bond issues.

Bond Sinking Funds - McCreary County Water District is required by ordinances to transfer funds into various sinking funds for future debt retirement.

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 7 - COMPLIANCE WITH BOND ORDINANCES (CONTINUED)**

Depreciation Fund - The bond resolutions authorizing the bond issues of the water and sewer system require transfers into various depreciation funds to be used for plant acquisitions, extensions and extraordinary repairs and maintenance. Transfers can cease when the fund balance reaches specified levels. The balance in the depreciation fund as of December 31, 2017 and 2016 equaled \$306,593 and \$303,002 respectively. The required balance is \$162,480 and \$170,340 respectively.

Construction Funds - The District is required to transfer funds into various funds for the use of funding future projects.

**NOTE 8 - 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 disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

**NOTE 9 - FAIR VALUE MEASUREMENTS**

FASB Statement No. 157, *Fair Value Measurements*, as codified by Accounting Standards Codification (ASC) 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The District uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the District measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or 3 inputs were used by the District.

*Level 1 Fair Value Measurements*

The fair value of the Federated Treasury Obligations Fund (a money market fund) is based on quoted net asset values of the investments held by the District at year-end.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value:

Assets at Fair Value as of December 31, 2017

	Level 1	Level 2	Level 3	Total
Treasury MM fund	\$338,733	-	-	\$338,733
Total assets at fair value	<u>\$338,733</u>	-	-	<u>\$338,733</u>

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)**

Assets at Fair Value as of December 31, 2016

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$335,325</u>	-	-	<u>\$335,325</u>
Total assets at fair value	<u>\$335,325</u>	-	-	<u>\$335,325</u>

**NOTE 10 - PENSION PLAN**

McCreary County Water District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

*Plan Description* - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

*Contributions* - For the year ended December 31, 2017, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were 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 the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a 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 basis adopted by the Board. For the year ended December 31, 2017, the District contributed 18.68% of each employee's wages from January to June, 2017 and 19.18% of each employee's wages from July to December, 2017, both of which are equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were 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. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 10 - PENSION PLAN (CONTINUED)**

The District contributed \$213,829 and \$181,813 for the years ended December 31, 2017 and 2016, respectively, or 100% of the required contribution. The contribution was allocated for the years ended December 31, 2017 and 2016 \$160,610 and \$134,208, respectively, to the CERS pension fund and \$53,219 and \$47,605, respectively, to the CERS insurance fund.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* - At December 31, 2017, the District reported a liability of \$2,559,300 or 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 June 30, 2016, rolled-forward from the valuation date to June 30, 2017 using generally accepted actuarial principles. The District's proportion of the net pension liability was determined using the District's actual contributions for the year ended June 30, 2017. This method is expected to be reflective of the District's long-term contribution effort. At June 30, 2017, the District's proportion was .043724 percent, while at June 30, 2016, the District's proportion was .043507 percent.

For the year ended December 31, 2017, the District recognized pension expense of \$453,066. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Effects of changes of assumptions	\$ 472,260	\$ -
District contributions subsequent to the measurement date	85,501	-
Difference between projected and actual earnings on plan investments	31,656	-
Changes in proportion and differences between District contributions and proportionate share of contributions	56,595	10,473
Differences between expected and actual liability experience	3,175	64,967
<b>Total</b>	<b>\$ 649,187</b>	<b>\$ 75,440</b>

The \$85,501 of deferred outflows of resources 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 will be recognized in pension expense as follows:

<b>Year ending December 31,</b>	
2018	\$ 222,695
2019	210,885
2020	87,531
2021	(32,865)

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 10 - PENSION PLAN (CONTINUED)**

*Actuarial Assumptions* - 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. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for any of the systems. However, subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, 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.

Inflation	2.30%
Salary increases	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 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2008 - June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in May and July 2017, for use with the June 30, 2017 valuation.

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

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

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 10 - PENSION PLAN (CONTINUED)**

*Discount Rate* - The discount rate used to measure the total pension liability was 6.25 percent at June 30, 2017. 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 amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

*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 percent, 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 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	<b>Discount rate</b>	<b>District's proportionate share of net pension liability</b>
1% decrease	5.25%	\$ 3,227,831
Current discount rate	6.25%	\$ 2,559,300
1% increase	7.25%	\$ 2,000,079

*Payable to the Pension Plan* - At December 31, 2017 and 2016, the District reported a payable of \$24,557 and \$23,014, respectively, for the outstanding amount of contributions to the pension plan required for the years then ended. The payable includes both the pension and insurance contribution allocation.

**NOTE 11 - SUBSEQUENT EVENTS**

Subsequent events were evaluated through September 10, 2018, which is the date the financial statements were available to be issued.

In June 2015, the GASB approved Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" which reflects substantial changes to the accounting and financial reporting of state and local government employers. The objective of Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). Statement No. 75 replaces the requirements of Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," as amended.

The guidance contained in this Statement changes how governments calculate and report the costs and obligations associated with OPEB in important ways. It is designed to improve the decision usefulness of reported OPEB information and to increase the transparency, consistency, and comparability of OPEB information across governments. Under the OPEB standards now in effect, cost-sharing employers have not been required to present actuarial information about OPEB. Instead, information has been required to be presented in the OPEB plan's own financial statements for all the participating governments combined.

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 11 - SUBSEQUENT EVENTS (CONTINUED)**

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standard the GASB is requiring 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.

Statement No. 75 will take effect for pension plan employers in fiscal years beginning after June 15, 2017 (that is, for years ended June 30, 2018 or later). The District is currently evaluating the effects of this statement on its financial statements. The actual liability for December 31, 2017 for McCreary County Water District is not known at this time.



**Supplemental Information**

**MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF NET POSITION  
DECEMBER 31, 2017**

	McCreary County			Total
	Water	Sewer	Eliminations	
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 537,780	\$ 14,536	\$ -	\$ 552,316
Unbilled revenues	174,869	54,944	-	229,813
Accounts receivable, net	280,368	79,290	-	359,658
Other receivables	2,262	6,709	-	8,971
Due from associated division	1,125,970	-	(1,125,970)	-
Inventory	151,717	40,415	-	192,132
Prepaid expenses	26,935	-	-	26,935
Total current assets	<u>2,299,901</u>	<u>195,894</u>	<u>(1,125,970)</u>	<u>1,369,825</u>
<b>Non-current assets:</b>				
Restricted cash and cash equivalents	376,359	43,979	-	420,338
Investments	338,733	-	-	338,733
<b>Capital assets:</b>				
Utility plant	41,382,242	19,183,239	-	60,565,481
Less accumulated depreciation	(16,665,572)	(7,076,215)	-	(23,741,787)
Construction in process	1,887,007	-	-	1,887,007
Total non-current assets	<u>27,318,769</u>	<u>12,151,003</u>	<u>-</u>	<u>39,469,772</u>
<b>Deferred outflows of resources:</b>				
Deferred outflows - pension	576,749	72,438	-	649,187
Total assets and deferred outflows of resources	<u>\$ 30,195,419</u>	<u>\$ 12,419,335</u>	<u>\$ (1,125,970)</u>	<u>\$ 41,488,784</u>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 97,837	\$ 60,672	\$ -	\$ 158,509
Accrued interest	93,970	31,102	-	125,072
Due to associated division	-	1,125,970	(1,125,970)	-
Taxes payable	20,596	2,658	-	23,254
Other accrued expenses	93,809	11,429	-	105,238
Customer deposits	34,092	-	-	34,092
Revenue bonds - current portion	334,014	50,000	-	384,014
Total current liabilities	<u>674,318</u>	<u>1,281,831</u>	<u>(1,125,970)</u>	<u>830,179</u>
<b>Non-current liabilities:</b>				
Revenue bonds - net current portion	8,228,257	1,588,000	-	9,816,257
Net pension liability	2,251,184	308,116	-	2,559,300
Total non-current liabilities	<u>10,479,441</u>	<u>1,896,116</u>	<u>-</u>	<u>12,375,557</u>
Total liabilities	<u>11,153,759</u>	<u>3,177,947</u>	<u>(1,125,970)</u>	<u>13,205,736</u>
<b>Deferred inflows of resources:</b>				
Deferred inflows - pension	67,363	8,077	-	75,440
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	18,041,406	10,469,024	-	28,510,430
Restricted for debt service and construction	715,092	43,979	-	759,071
Unrestricted	217,799	(1,279,692)	-	(1,061,893)
Total net position	<u>18,974,297</u>	<u>9,233,311</u>	<u>-</u>	<u>28,207,608</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 30,195,419</u>	<u>\$ 12,419,335</u>	<u>\$ (1,125,970)</u>	<u>\$ 41,488,784</u>

See Independent Auditor's Report.

**McCREARY COUNTY WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	McCreary County		Total
	Water	Sewer	
<b>Operating revenues</b>			
Residential sales	\$ 2,204,127	\$ 301,431	\$ 2,505,558
Commercial sales	215,782	156,144	371,926
Industrial sales	6,426	5,804	12,230
Governmental sales	717,784	443,744	1,161,528
Other sales and fees	82,745	45,612	128,357
Total operating revenues	<u>3,226,864</u>	<u>952,735</u>	<u>4,179,599</u>
<b>Operating expenses</b>			
General and administrative costs	249,108	14,736	263,844
Payroll and contractual services	1,866,213	378,843	2,245,056
Repairs and maintenance	-	119,125	119,125
Other supplies and expenses	902,716	468,180	1,370,896
Project costs	166,502	-	166,502
Depreciation	1,024,625	538,822	1,563,447
Total operating expenses	<u>4,209,164</u>	<u>1,519,706</u>	<u>5,728,870</u>
Operating loss	<u>(982,300)</u>	<u>(566,971)</u>	<u>(1,549,271)</u>
<b>Nonoperating revenues (expenses)</b>			
Interest income	8,027	427	8,454
Other income	400,907	-	400,907
Loss on abandoned fixed assets	(137,584)	-	(137,584)
Interest expense	(248,615)	(62,311)	(310,926)
Total nonoperating revenues	<u>22,735</u>	<u>(61,884)</u>	<u>(39,149)</u>
Loss before contributions	<u>(959,565)</u>	<u>(628,855)</u>	<u>(1,588,420)</u>
Capital grants received	<u>383,997</u>	<u>-</u>	<u>383,997</u>
Change in net position	<u>(575,568)</u>	<u>(628,855)</u>	<u>(1,204,423)</u>
Total net position on December 31, 2016	<u>19,851,249</u>	<u>9,560,782</u>	<u>29,412,031</u>
Total net position on December 31, 2017	<u>\$ 19,275,681</u>	<u>\$ 8,931,927</u>	<u>\$ 28,207,608</u>

See Independent Auditor's Report

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF CASH FLOWS  
DECEMBER 31, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 3,237,991	\$ 946,103	\$ 4,184,094
Operating expenses:			
General and administrative	(249,108)	(14,736)	(263,844)
Payroll and related expenses	(1,607,748)	(344,860)	(1,952,608)
Repairs and maintenance	-	(119,125)	(119,125)
Project costs	(166,502)	-	(166,502)
Other supplies and expenses	(1,024,418)	(360,213)	(1,384,631)
Net cash provided by operating activities	<u>190,215</u>	<u>107,169</u>	<u>297,384</u>
 <b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(478,026)	(1,752)	(479,778)
Proceeds from sale of capital assets	-	-	-
Principal paid on debt	(313,572)	(59,984)	(373,556)
Proceeds from debt borrowings	-	-	-
Interest paid on debt	(251,922)	(62,311)	(314,233)
Capital contributions	<u>383,997</u>	<u>-</u>	<u>383,997</u>
Net cash used in capital and related financing activities	<u>(659,523)</u>	<u>(124,047)</u>	<u>(783,570)</u>
 <b>Cash Flows from Investing Activities</b>			
Interest income from investments	8,027	427	8,454
Other cash receipts	<u>400,907</u>	<u>-</u>	<u>400,907</u>
Net cash provided by investing activities	<u>408,934</u>	<u>427</u>	<u>409,361</u>
 Net decrease in cash and cash equivalents	(60,374)	(16,451)	(76,825)
Cash and cash equivalents, at beginning of year	<u>1,285,279</u>	<u>70,751</u>	<u>1,356,030</u>
Cash and cash equivalents, at end of year	<u>\$ 1,224,905</u>	<u>\$ 54,300</u>	<u>\$ 1,279,205</u>
 Unrestricted cash and cash equivalents	\$ 537,780	\$ 14,536	\$ 552,316
Restricted cash and cash equivalents	<u>715,092</u>	<u>43,979</u>	<u>759,071</u>
Total cash and cash equivalents, at end of year	<u>\$ 1,252,872</u>	<u>\$ 58,515</u>	<u>\$ 1,311,387</u>

See Independent Auditor's Report.

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)  
DECEMBER 31, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Operating loss	\$ (982,300)	\$ (566,971)	\$ (1,549,271)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	1,024,625	538,822	1,563,447
Bad debt expense	27,967	4,215	32,182
Change in assets and liabilities:			
(Increase) decrease in receivables	11,127	(6,632)	4,495
Decrease in inventories	22,998	7,530	30,528
Increase in prepaids	(246)	-	(246)
Decrease in accounts payable	(27,470)	(9,889)	(37,359)
Increase in customer deposits	3,470	-	3,470
(Decrease) increase in accrued expenses	(10,925)	797	(10,128)
Increase in net pension obligation	258,465	33,983	292,448
<b>Net cash provided by operating activities</b>	<u>\$ 327,711</u>	<u>\$ 1,855</u>	<u>\$ 329,566</u>

See Independent Auditor's Report.

**McCreary County Water District**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**As of and for the Year Ended December 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.04372%	0.04351%	0.04043%	0.04243%
District's proportionate share of the net pension liability	\$ 2,559,300	\$ 2,142,121	\$ 1,738,371	\$ 1,376,595
District's covered employee payroll	\$ 1,064,570	\$ 1,024,456	\$ 949,859	\$ 973,416
District's share of the net pension liability as a percentage of its covered employee payroll	240.41%	209.10%	183.01%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

The amounts presented for each fiscal year were determined (measured) as of June 30, of the fiscal year presented.

**McCreary County Water District**  
**Schedule of Pension Contributions**  
**As of and for the Year Ended December 31, 2017**

	2017	2016	2015	2014
Contractually required employer contributions	\$ 160,610	\$ 134,208	\$ 126,892	\$ 127,882
Contributions relative to contractually required employer contributions	<u>\$ 160,610</u>	<u>\$ 134,208</u>	<u>\$ 126,892</u>	<u>\$ 127,882</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,128,886	\$ 1,015,760	\$ 1,009,246	\$ 965,456
Employer contributions as a percentage of covered-employee payroll	14.23%	13.21%	12.57%	13.25%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Contractually required employer contributions exclude the portion of contributions paid to the CERS, but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year-end of the District.

**McCreary County Water District  
Schedule of Changes in Benefits and Assumptions  
As of and for the Year Ended December 31, 2017**

**County Employee Retirement System**

*Changes of benefit terms - None.*

*Changes in assumptions*

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The payroll growth assumption was reduced from 4.00% to 2.00%.
- The salary increase assumption was reduced from 4.00% average to 3.05% average.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 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% to 0.75%.
- The 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 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. 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.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.



**FAULKNER, KING & WENZ, PSC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**JOSEPH C. KING, CPA**  
**JOHN M. WENZ, CPA**  
**KEVIN M. ROMENESKO, CPA**  
**KAREN S. TRENT, CPA**  
**EUGENE C. WEATHERS, CPA**

**P.O. BOX 285**  
**117 WEST HIGH STREET**  
**MT. STERLING, KY 40353**  
**(859) 498-1836 FAX (859) 498-2116**

**LANA J. McCANN, CPA**  
**ERICA M. SNOWDEN, CPA**  
**JENNIFER T. COLLINGWOOD, CPA**

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

Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653

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 combined financial statements of the business-type activities of the McCreary County Water District, Water and Sewer Divisions (the 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 and have issued our report thereon dated September 10, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

**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.

***Faulkner, King & Wenz, PSC***

September 10, 2018