

MEADE COUNTY WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017

MEADE COUNTY WATER DISTRICT

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YEARS ENDED DECEMBER 31, 2017

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CHRIS R. CARTER, CPA
ANN M. FISHER, CPA
SCOTT KISSELBAUGH, CPA
PHILIP A. LOGSDON, CPA
BRIAN S. WOOSLEY, CPA

STILES, CARTER & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
WWW.SCACPA.COM

AMERICAN INSTITUTE OF CPAS
KENTUCKY SOCIETY OF CPAS

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Meade County Water District
Brandenburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Meade County Water District as of and for the year ended December 31, 2017, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Meade County Water District, as of December 31, 2017, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Adoption of Accounting Standards

As discussed in Note 1 to the financial statements, during the year ended December 31, 2017, the District adopted Governmental Accounting Standards Board Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, Statement 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14, Statement 81, Irrevocable Split-Interest Agreements and Statement 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 72. 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 on pages 4 to 8, schedule of proportionate share of the net pension liability on page 26 and schedule of contributions on page 27 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 an opinion on the financial statements that collectively comprise the Meade County Water District's basic financial statements. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules I and II 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, Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Schedule III has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2018 on our consideration of Meade 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 Meade County Water District's internal control over financial reporting and compliance.

Stiles, Carter & Associates
Certified Public Accountants
Elizabethtown, Kentucky
July 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

**MEADE COUNTY WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2017**

The discussion and analysis of Meade County Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$442 thousand. The balance at December 31, 2016, was \$656 thousand. This reflects a \$214 thousand decrease in cash during the year.
- The District invested approximately \$900 thousand in capital assets during the year.

USING THIS ANNUAL REPORT

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; and notes to the basic financial statements.

The **statement of net position** presents the financial position of the District on a full accrual historical cost basis. The statement presents information on all of the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statement of revenues, expenses, and changes in fund net position** presents the results of the District's activities over the course of the fiscal year and information as to how the net position changed during the 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 the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the basic financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$10.3 million and \$10.4 million as of December 31, 2017 and 2016.

The largest portion of the District's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, equipment, transmission and distribution systems and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is 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.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Position
as of December 31, 2017 and 2016

	2017	2016
Assets		
Current and Other Assets	\$ 1,639,330	\$ 1,023,130
Capital Assets	13,391,274	13,029,976
Total Assets	<u>15,030,604</u>	<u>14,053,106</u>
Deferred Outflows of Resources	<u>272,838</u>	<u>150,713</u>
Liabilities		
Long-term Liabilities	4,259,176	4,152,113
Other Liabilities	551,271	288,601
Total Liabilities	<u>4,810,447</u>	<u>4,440,714</u>
Deferred Inflows of Resources	<u>123,571</u>	<u>-</u>
Net Position		
Net investment in capital assets	9,762,613	9,640,000
Restricted	254,339	274,766
Unrestricted	352,472	516,572
Total Net Position	<u><u>\$ 10,369,424</u></u>	<u><u>\$ 10,431,338</u></u>

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), decreased by \$165 thousand at December 31, 2017. Restricted net position decreased \$21 thousand. Net investment in capital assets decreased by \$123 thousand.

(Table 2)
Changes in Net Position
Years Ending December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Water sales	\$ 2,178,596	\$ 2,068,035
TOTAL OPERATING REVENUES	2,178,596	2,068,035
OPERATING EXPENSES:		
Water purchased	674,707	664,309
Power purchased	37,000	32,400
Meter labor and expense	448,477	414,299
Bad debt	-	1,250
Repairs and maintenance	26,214	37,340
General and administrative expense	440,196	485,070
Depreciation	576,885	519,833
TOTAL OPERATING EXPENSES	2,203,479	2,154,501
OPERATING LOSS	4,382,075	(86,466)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	1,181	1,286
Other income	86	15,121
Interest expense on long-term debt	(116,471)	(123,004)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(115,204)	(106,597)
CAPITAL CONTRIBUTIONS	78,173	70,707
CHANGE IN NET POSITION	(61,914)	(122,356)
NET POSITION, beginning of year	10,431,338	10,553,694
NET POSITION, end of year	<u>\$ 10,369,424</u>	<u>\$ 10,431,338</u>

Operating revenue increased 5.4% as compared to the prior year as new customers were added. Total operating expenses increased by 2.2%. Interest expense on long-term debt declined by 5.4%.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2017 and 2016, the District had \$8.6 million and \$8.8 million invested in a variety of capital assets, as reflected in the following table:

(Table 3)
Capital Assets (Net of Depreciation)
as of December 31, 2017 and 2016

	2017	2016
Non-Depreciable Assets:		
Land	\$ 75,043	\$ 75,043
Construction in process	75,753	-
Depreciable Assets:		
Plant and equipment, net of depreciation	13,240,478	12,954,933
Total capitals, net of depreciation	\$ 13,391,274	\$ 13,029,976

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2017 and 2016

	2017	2016
Beginning Balance	\$ 13,029,976	\$ 13,371,420
Additions	938,183	178,389
Retirements	-	-
Depreciation	(576,885)	(519,833)
Ending Balance	\$ 13,391,274	\$ 13,029,976

Debt

At December 31, 2017 and 2016, the District had \$2.6 million and \$2.7 million in revenue bonds outstanding and \$1.0 million and \$700 thousand of notes payable. A total of \$377 thousand is due within the 2018 calendar year. During 2017, the District borrowed \$453 thousand from Meade County Bank with an interest rate of .99%, payable in monthly installments of \$19,888. The final payment is due July 2019.

(Table 5)
Outstanding Debt
as of December 31, 2017 and 2016

	2017	2016
Revenue bonds	\$ 2,588,500	\$ 2,670,000
Notes payable	1,044,998	725,777
Unamortized discount premium	(4,835)	(5,801)
Total	\$ 3,628,663	\$ 3,389,976

District Challenges for the Future

The District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent.

The District will continue to use careful planning and monitoring of finances to provide quality services to its customers.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Tim Gossett, General Manager, 1003 Armory Road, Brandenburg, Kentucky 40108 or (270) 422-5006.

MEADE COUNTY WATER DISTRICTSTATEMENT OF NET POSITIONDECEMBER 31, 2017

	<u>2017</u>
<u>ASSETS</u>	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 187,641
Accounts receivable, net	142,202
Unbilled receivables	116,371
Prepaid insurance	13,356
Materials and supplies	<u>67,509</u>
TOTAL CURRENT ASSETS	527,079
NONCURRENT ASSETS:	
Restricted cash and cash equivalents	254,339
Regulatory asset	857,912
Non-depreciable capital assets	150,796
Depreciable capital assets, net of accumulated depreciation	<u>13,240,478</u>
TOTAL NONCURRENT ASSETS	<u>14,503,525</u>
TOTAL ASSETS	<u>15,030,604</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>272,838</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES:	
Accounts payable	21,896
Payroll and other taxes payable	9,367
Accrued vacation	37,878
Accrued interest	49,592
Other accrued liabilities	3,003
Customer deposits	52,871
Notes and bonds payable	<u>376,664</u>
TOTAL CURRENT LIABILITIES	551,271
NONCURRENT LIABILITIES:	
Net pension liability- CERS	1,007,179
Notes and bonds payable	<u>3,251,997</u>
TOTAL NONCURRENT LIABILITIES	<u>4,259,176</u>
TOTAL LIABILITIES	<u>4,810,447</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	<u>123,571</u>
<u>NET POSITION</u>	
Net investment in capital assets	9,762,613
Restricted net position	254,339
Unrestricted	<u>352,472</u>
TOTAL NET POSITION	<u>\$ 10,369,424</u>

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

MEADE COUNTY WATER DISTRICTSTATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITIONYEAR ENDED DECEMBER 31, 2017

	<u>2017</u>
OPERATING REVENUES:	
Water sales	\$ 2,178,596
TOTAL OPERATING REVENUES	2,178,596
OPERATING EXPENSES:	
Water purchased	674,707
Power purchased	37,000
Meter labor and expense	448,477
Repairs and maintenance	26,214
General and administrative expenses	440,196
Depreciation	576,885
TOTAL OPERATING EXPENSES	2,203,479
OPERATING LOSS	(24,883)
NON-OPERATING REVENUES (EXPENSES):	
Interest income	1,181
Other income	86
Interest expense on long-term debt	(116,471)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(115,204)
CAPITAL CONTRIBUTIONS	78,173
CHANGE IN NET POSITION	(61,914)
NET POSITION, beginning of year	10,431,338
NET POSITION, end of year	\$ 10,369,424

The accompanying notes are integral part of these financial statements.

MEADE COUNTY WATER DISTRICTSTATEMENT OF CASH FLOWSYEAR ENDED DECEMBER 31, 2017

	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 2,126,705
Payments to suppliers	(952,223)
Payments to employees	(650,461)
	<u>524,021</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	524,021
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal payments on debt	(215,150)
Proceeds from new loans	452,871
Acquisition and construction of capital assets	(938,183)
Other income	86
Capital contributions	78,173
Interest on long-term debt	(116,471)
	<u>(738,674)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(738,674)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	1,181
	<u>1,181</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,181
NET INCREASE IN CASH AND CASH EQUIVALENTS	(213,472)
CASH AND CASH EQUIVALENTS, beginning of year	655,452
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 441,980</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	\$ (24,883)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation	576,885
Increase in accounts receivable	(35,851)
Increase in unbilled receivables	(16,040)
Increase in accounts payable	3,178
Increase in customer deposits	18,402
Decrease in accrued interest	(45)
Increase in other accrued liabilities	2,375
	<u>524,021</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 524,021</u>

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

NOTES TO FINANCIAL STATEMENTS

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Meade County Water District was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Meade County, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or 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 proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

(Continued next page)

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL STATEMENT AMOUNTS

1. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2017, accounts receivable was stated net of an allowance for uncollectible accounts of \$24,373. Bad debt expense for each of the years ended December 31, 2017 was \$-0-. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
2. Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.
3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.
4. Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-75
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-40

5. Amortization – Bond discounts and premiums are being amortized using the straight-line method over the life of each respective bond issue.
6. Cash Equivalents – For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
7. Compensation for Future Absences – Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.
8. Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.
9. Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

(Continued next page)

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. Capital Contributions – Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
11. Long-term obligations are reported at face value, net of applicable premiums and discounts.
12. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.
13. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.
14. Net Position – Net position is divided into three components:
 - a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.
 - b. Restricted net position – consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
 - c. Unrestricted – all other net position is reported in this category.
15. Use of Estimates – The preparation of financial assets in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(Continued next page)

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. Pensions – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions. Accordingly, the District recognizes the actuarially determined contribution as the current year pension expense.

17. Impact of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. This statement was adopted during the year ended December 31, 2017 and did not have an impact on the District's financial statements.

In January 2016, the GASB issued Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*. This statement is effective for periods beginning after June 15, 2016. This statement was adopted during the year ended December 31, 2017 and did not have an impact on the District's financial statements.

In March 2016, the GASB issued Statement 81, *Irrevocable Split-Interest Agreements*. This statement is effective for periods beginning after December 15, 2016. This statement was adopted during the year ended December 31, 2017 and did not have an impact on the District's financial statements.

In March 2016, the GASB issued Statement 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 72*. This statement is effective for periods beginning after June 15, 2016 except for the requirements of the Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement was adopted during the year ended December 31, 2017 and did not have an impact on the District's financial statements.

(Continued next page)

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In November 2016, the GASB issued Statement 83, *Certain Asset Retirement Obligations*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2017 \$67,229 of the District's bank balance of \$464,551 was exposed to custodial credit risk. At December 31, 2017, \$-0- of the amount exposed to custodial risk were not collateralized. The remaining amount was collateralized by securities held by the pledging financial institution.

(Continued next page)

MEADE COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2017NOTE 3 – RESTRICTED CASH

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2017:

<u>Restricted For</u>	<u>December 31, 2017</u>
Customer Deposits	16,618
Debt Service	167,056
Reserve & Depreciation	70,665
	<u>\$ 254,339</u>

NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2017, is summarized as follows:

	<u>Balance 12/31/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2017</u>
Non-depreciable assets	\$ 75,043	75,753	-	\$ 150,796
Capital assets being depreciated	19,976,858	862,430	-	20,839,288
Total accumulated depreciation	<u>(7,021,925)</u>	<u>(576,885)</u>	<u>-</u>	<u>(7,598,810)</u>
Total capital assets being depreciated, net	<u>12,954,933</u>	<u>285,545</u>	<u>-</u>	<u>13,240,478</u>
Capital assets, net	<u>\$ 13,029,976</u>	<u>\$ 361,298</u>	<u>\$ -</u>	<u>\$ 13,391,274</u>

During the year ended December 31, 2017, the District capitalized \$-0- of interest.

(Continued next page)

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 5 – LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

Year	Notes and Bonds Payable		Sinking Fund
	Principal	Interest	Requirements
2018	\$ 377,630	\$ 168,763	\$ 546,393
2019	288,490	163,622	452,112
2020	156,121	159,844	315,965
2021	162,954	156,312	319,266
2022	165,341	152,542	317,883
2023-2027	610,336	496,632	1,106,968
2028-2032	469,626	338,688	808,314
2033-2037	309,000	258,678	567,678
2038-2042	387,500	187,121	574,621
2043-2047	485,500	97,010	582,510
2048-2049	221,000	9,096	230,096
Total	<u>\$ 3,633,498</u>	<u>\$ 2,188,308</u>	<u>\$ 5,821,806</u>

Changes in long-term obligations during the year ended December 31, 2017 were:

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	\$ 2,670,000	\$ -	\$ (81,500)	\$ 2,588,500	\$ 84,500
Notes Payable	725,777	452,871	(133,650)	1,044,998	293,130
Unamortized Issuance Costs	(5,801)	-	966	(4,835)	(966)
Total	<u>\$ 3,389,976</u>	<u>\$ 452,871</u>	<u>\$ (214,184)</u>	<u>\$ 3,628,663</u>	<u>\$ 376,664</u>

Information relating to the outstanding bond and notes is summarized below:

Date of Issue	Interest Rate	Original Amount of Each Issue	Bonds and Notes Payable Outstanding December 31, 2017
2001 Bond Series A	5.08%	\$ 605,000	\$ 258,000
1992 Bond Payable	5.00%	415,000	283,000
KIA Bond Payable	4.68%	165,000	45,000
KIA Note Payable	3.00%	394,760	165,598
KIA Note Payable	3.00%	753,447	504,739
USDA Bond Payable	4.13%	2,150,000	2,002,500
Meade County Bank	0.99%	452,871	374,661

(Continued next page)

MEADE COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2017NOTE 6 - RETIREMENT PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial reports that include financial statements and required supplementary information. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Contributions

For the calendar year ended December 31, 2017, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. 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 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. Plan members who began participating prior to September 1, 2008 are considered in the Tier 1 structure of benefits and plan members who began participating September 1, 2008 through December 31, 2013 are considered in the Tier 2 structure of benefits.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the 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.

(Continued next page)

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 – RETIREMENT PLAN (CONTINUED)

The District's contractually required contribution rate for the calendar year ended December 31, 2017, was 13.95 percent of creditable compensation from January 1 to June 30 and 14.48 percent of creditable compensation from July 1 to December 31. Contributions to the pension plan for the year ended December 31, 2017 from the District was \$58,442.

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

At December 31, 2017, the District reported a liability of \$1,007,179 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all, actuarially determined. At June 30, 2017, the District's proportion was 0.017207 percent, which was a decrease of .001053 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the District recognized pension expense of \$58,442. At December 31, 2017, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,249	\$ 25,567
Changes in actuarial assumptions	185,852	-
Difference between projected and actual investment earnings	79,767	67,310
Changes in proportionate share of contributions	5,970	30,694
	<u>\$ 272,838</u>	<u>\$ 123,571</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2018	\$ 69,970
2019	64,584
2020	27,648
2021	(12,935)
	<u>\$ 149,267</u>

(Continued next page)

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 – RETIREMENT PLAN (CONTINUED)

The total pension liability in the June 30, 2017 actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Discount Rate	6.25 percent
Inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

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 (setback for 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.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

(Continued next page)

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	2.00%	1.88%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year (closed) amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjustment to reflect the phase in of anticipated gains on actuarial value of assets over the first four year the projection period. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	1,270,270	1,007,179	787,105

(Continued next page)

MEADE COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2017NOTE 6 – RETIREMENT PLAN (CONTINUED)Pension Plan Fiduciary Net Position

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

CERS also provides post-retirement health care coverage as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	10	0%
15-19	7	25%
10-14	5	50%
4-9	2	75%
Less than 4	0	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

NOTE 7 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the year ended December 31, 2017:

<u>Source</u>	
Tap fees	78,173

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; and natural disasters. The District was insured for workers' compensation, general liability coverage under a retrospectively rated commercial policy.

NOTE 9 – ECONOMIC DEPENDENCY

The District obtains a majority of its revenues from customers in Meade County, Kentucky. An economic downturn in the area could have a negative impact on the financial condition of the District.

(Continued next page)

MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 – ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

The District is subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulating entities. Accordingly, the District records these future economic benefits and obligations as regulatory assets and regulatory liabilities.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
2. The regulated rates must be designed to recover the specific entities cost of providing the regulated services;
3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that the rates set at levels that will recover the entities' cost can be charged to and collected from customers.

Based on the District's management evaluation of the three criteria discussed above in relation to its operations, and the effects of competition on its ability to recover its costs, the District believes that GASB Statement No. 62 continues to apply.

NOTE 11 – SUBSEQUENT EVENT

In July 2018, the District issued \$2,000,000 of bonds.

REQUIRED SUPPLEMENTARY INFORMATION

MEADE COUNTY WATER DISTRICT**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY**

December 31, 2017

Last 10 Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.017207%	0.018260%	0.018106%
Proportionate share of the net pension liability	\$ 1,007,179	\$ 899,077	\$ 778,456
Covered - employee payroll	\$ 448,477	\$ 408,472	\$ 396,057
Proportionate share of the net pension liability as percentage of covered payroll	224.6%	220.1%	196.6%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%

* Calendar year 2015 was the first year of implementation, therefore, only three years are shown.

MEADE COUNTY WATER DISTRICT**SCHEDULE OF CONTRIBUTIONS TO CERS**

December 31, 2017

Last 10 Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 58,442	\$ 51,879	\$ 54,057
Contribution in relation to the actuarially determined contributions	<u>58,442</u>	<u>51,879</u>	<u>54,057</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 448,477	\$ 408,472	\$ 396,057
Contributions as a percentage of covered employee payroll	13.03%	12.70%	13.65%

* Calendar year 2015 was the first year of implementation, therefore, only three years are shown.

MEADE COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017

Changes of benefit terms. There were no changes in benefit terms.

Changes of assumptions.

1. Decrease the price inflation assumption to 3.25% to 2.30%
2. Decrease the assumed rate of return from 7.50% to 6.25%
3. Decrease the payroll growth assumption from 4.00% to 2.00%

SUPPLEMENTARY INFORMATION

MEADE COUNTY WATER DISTRICTSCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTSDECEMBER 31, 2017

	2001 SERIES A BOND PAYABLE		1992 BOND PAYABLE	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2018	35,000	48,098	11,000	14,313
2019	38,000	49,081	13,000	13,738
2020	41,000	49,899	13,000	13,088
2021	44,000	50,633	14,000	12,425
2022	47,000	51,290	15,000	11,713
2023	49,000	50,818	16,000	10,095
2024	4,000	4,453	17,000	10,138
2025			18,000	9,275
2026			20,000	8,350
2027			20,000	7,350
2028			22,000	6,325
2029			23,000	5,213
2030			25,000	4,038
2031			27,000	2,750
2032			29,000	975
2033				
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2049				
	<u>\$ 258,000</u>	<u>\$ 304,272</u>	<u>\$ 283,000</u>	<u>\$ 129,786</u>

MEADE COUNTY WATER DISTRICTSCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTSDECEMBER 31, 2017

	KIA BOND PAYABLE		KIA NOTE PAYABLE	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2018	10,000	2,013	21,597	4,806
2019	10,000	1,581	22,250	4,154
2020	10,000	1,137	22,922	3,482
2021	10,000	687	23,615	2,789
2022	5,000	231	24,329	2,075
2023			25,064	1,340
2024			25,821	582
2025				
2026				
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2049				
	<u>\$ 45,000</u>	<u>\$ 5,650</u>	<u>\$ 165,598</u>	<u>\$ 19,228</u>

MEADE COUNTY WATER DISTRICTSCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTSDECEMBER 31, 2017

	KIA NOTE PAYABLE		2010 SERIES BOND PAYABLE	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2018	35,519	14,878	28,500	82,016
2019	36,593	13,804	30,000	80,809
2020	37,699	12,698	31,500	79,540
2021	38,839	11,558	32,500	78,220
2022	40,012	10,384	34,000	76,849
2023	41,222	9,175	36,000	75,406
2024	42,468	7,930	37,500	73,890
2025	43,751	6,646	39,000	72,311
2026	45,074	5,323	41,000	70,661
2027	46,436	3,961	43,000	68,928
2028	47,840	2,558	45,000	67,114
2029	49,286	1,111	47,000	65,216
2030			49,000	63,236
2031			51,500	61,164
2032			54,000	58,988
2033			56,500	56,709
2034			59,000	54,327
2035			61,500	51,841
2036			64,500	49,242
2037			67,500	46,559
2038			70,500	43,674
2039			74,000	40,694
2040			77,500	37,569
2041			81,000	34,299
2042			84,500	30,885
2043			88,500	27,318
2044			92,500	23,584
2045			97,000	19,225
2046			101,500	15,581
2047			106,000	11,302
2048			111,000	6,827
2049			110,000	2,269
	<u>\$ 504,739</u>	<u>\$ 100,026</u>	<u>\$ 2,002,500</u>	<u>\$ 1,626,253</u>

MEADE COUNTY WATER DISTRICTSCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTSDECEMBER 31, 2017MEADE COUNTY BANK
NOTE PAYABLE

	<u>PRINCIPAL</u>	<u>INTEREST</u>
2018	236,014	2,639
2019	138,647	455
2020		
2021		
2022		
2023		
2024		
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	<u>\$ 374,661</u>	<u>\$ 3,094</u>

MEADE COUNTY WATER DISTRICTSCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSESYEAR ENDED DECEMBER 31, 2017

Retirement expense	\$ 80,056
Insurance - health	110,758
Auto expense	20,257
Office supplies and postage	9,216
Payroll expense	40,128
Other general and administrative	92,643
Insurance - general liability	19,135
Professional fees	19,343
Insurance - workmens' compensation	6,181
Commissioners' salaries	30,000
Regulatory commission expense & other taxes	8,802
Training	3,677
	<hr/>
	\$ 440,196

MEADE COUNTY WATER DISTRICT

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2017

WATER COMMISSIONERS

Douglas Cornett – Chairman
Allen Stivers – Treasurer
Keith Boothe – Secretary
Wesley Prather – Commissioner
Mickey Chism – Commissioner

ATTORNEY

Skeeters, Bennett, Wilson & Pike

CALENDAR YEAR

January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE



CHRIS R. CARTER, CPA
ANN M. FISHER, CPA
SCOTT KISSELBAUGH, CPA
PHILIP A. LOGSDON, CPA
BRIAN S. WOOSLEY, CPA

STILES, CARTER & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
WWW.SCACPA.COM

AMERICAN INSTITUTE OF CPAS
KENTUCKY SOCIETY OF CPAS

**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
Meade County Water District
Brandenburg, 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 Meade County Water District, as of and for the year ended December 31, 2017, and have issued our report thereon dated July 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Meade 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Meade County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Meade County Water 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 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 by governance. We considered the deficiencies described in items 2017-001 and 2017-002 in the accompanying schedule of findings and responses to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meade County Water District's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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*.

Meade County Water District's Responses to Findings

Meade County Water District's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. Meade County Water 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

This report is intended 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 District'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.

Shiles, Carter & Associates
Certified Public Accountants
Elizabethtown, Kentucky
July 30, 2018

MEADE COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017

REFERENCE NUMBER 2017-001 PREPARATION OF FINANCIAL STATEMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Cause: The District has financial personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Management Response: The District has made strides in this area and is continuously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

REFERENCE NUMBER 2017-002 FINANCIAL STATEMENT PRESENTATION

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Cause: The District has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Management Response: It would be beneficial to have financial training.