

NORTH MARSHALL WATER DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2017 AND 2016

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INTRODUCTORY SECTION

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**NORTH MARSHALL WATER DISTRICT
DIRECTORY**

December 31, 2017

BOARD MEMBERS

Kendra Capps, Chairman
Kenneth Shadowen
Billy Driskill
Joe Draffen
James Leonard

MANAGEMENT TEAM

Bobby Gifford, Superintendent
Kimberly Smith, Bookkeeper

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

Draft Copy



Independent Auditor's Report

Board of Commissioners
North Marshall Water District
Benton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the North Marshall Water District (the District), 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 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 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 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 District'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 financial position of the District, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required schedules for pensions as listed in the table of contents 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 response 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

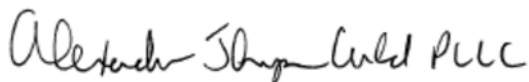
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplementary and other information section, including the schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information section is the responsibility of management and was derived from and relates 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 supplementary and other information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section 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 May 21, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Jackson, Tennessee
May 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the North Marshall Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2017 and 2016. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. The District is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets and deferred outflows at year-end were \$10.29 million and exceeded liabilities in the amount of \$5.25 million (i.e. net position).
- Total assets increased by \$95 thousand, mainly due to capital asset additions.
- Operating revenues were \$1.68 million, an increase from year 2016 in the amount of \$48 thousand or 2.97%.
- Operating expenses were \$1.79 million, an increase from year 2016 in the amount of \$224 thousand or 14.32%.
- The operating loss for the year was \$110 thousand as compared to \$65 thousand operating income in 2016.
- Ratios of operating income (loss) to total operating revenue were -.065 and .040 for 2017, and 2016, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary and other information section, 4) and the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, 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 the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business 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 measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the 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.

FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates. The District's total net position decreased by \$50,046 for the fiscal year ended December 31, 2017. The District's total net position increased by \$1,053,835 for the fiscal year ended December 31, 2016. The analysis below focuses on the District's net position (Table 1A & 1B) and changes in net position (Table 2A & 2B) during the year.

Table 1A
CONDENSED STATEMENT OF NET POSITION

	December 31, 2017	December 31, 2016	Increase (Decrease)	
			\$	%
Current and other assets	\$ 1,528,887	\$ 1,274,299	\$ 254,588	19.98%
Restricted noncurrent assets	62,214	53,417	8,797	16.47%
Capital assets	8,365,378	8,533,304	(167,926)	-1.97%
Total assets	9,956,479	9,861,020	95,459	0.97%
Deferred outflows of resources	332,919	208,603	124,316	59.59%
Long-term liabilities	4,885,195	4,686,502	198,693	4.24%
Other liabilities	129,951	86,453	43,498	50.31%
Total liabilities	5,015,146	4,772,955	242,191	5.07%
Deferred inflows of resources	27,630	-	27,630	100.00%
Net investment in capital assets	4,515,378	4,683,304	(167,926)	-3.59%
Unrestricted	731,244	613,364	117,880	19.22%
Total net position	\$ 5,246,622	\$ 5,296,668	\$ (50,046)	-0.94%

Table 1B
CONDENSED STATEMENTS OF NET POSITION

	December 31, 2016	December 31, 2015	Increase (Decrease)	
			\$	%
Current and other assets	\$ 1,274,299	\$ 1,133,799	\$ 140,500	12.39%
Restricted noncurrent assets	53,417	48,563	4,854	10.00%
Capital assets	8,533,304	7,185,396	1,347,908	18.76%
Total assets	9,861,020	8,367,758	1,493,262	17.85%
Deferred outflows of resources	208,603	139,233	69,370	100.00%
Long-term liabilities	4,686,502	4,010,061	676,441	16.87%
Other liabilities	86,453	254,097	(167,644)	-65.98%
Total liabilities	4,772,955	4,264,158	508,797	11.93%
Net investment in capital assets	4,683,304	3,869,162	814,142	21.04%
Unrestricted	613,364	373,671	239,693	64.15%
Total net position	\$ 5,296,668	\$ 4,242,833	\$ 1,053,835	24.84%

The increase in capital assets in 2017 and 2016 was due to the continued work on the various projects the District has in process. Total liabilities increased during the current year due low investment returns on the pension plan attributing to an increased net pension liability.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expense, and Changes in Net Position for the year.

Table 2A
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	December 31, 2017	December 31, 2016	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,678,031	\$ 1,629,570	\$ 48,461	2.97%
Non-operating revenues	1,391	1,241	150	12.09%
Total revenues	1,679,422	1,630,811	48,611	2.98%
Costs of sales and services	173,384	186,007	(12,623)	-6.79%
Customer accounts expense	42,109	35,822	6,287	17.55%
Administrative and general expenses	796,815	685,363	111,452	16.26%
Maintenance expense	383,500	325,135	58,365	17.95%
Provision for depreciation	393,191	332,592	60,599	18.22%
Non-operating expenses	86,625	15,901	70,724	444.78%
Total expenses	1,875,624	1,580,820	294,804	18.65%
Capital contributions	146,156	1,003,844	(857,688)	100.00%
Change in net position	(50,046)	1,053,835	(1,103,881)	-104.75%
Beginning net position	5,296,668	4,242,833	1,053,835	24.84%
Ending net position	\$ 5,246,622	\$ 5,296,668	\$ (50,046)	-0.94%

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	December 31, 2016	December 31, 2015	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,629,570	\$ 1,561,994	\$ 67,576	4.33%
Non-operating revenues	1,241	642	599	93.30%
Total revenues	1,630,811	1,562,636	68,175	4.36%
Costs of sales and services	186,007	177,720	8,287	4.66%
Customer accounts expense	35,822	34,927	895	2.56%
Administrative and general expenses	685,363	660,703	24,660	3.73%
Maintenance expense	325,135	316,869	8,266	2.61%
Provision for depreciation	332,592	328,737	3,855	1.17%
Non-operating expenses	15,901	18,240	(2,339)	-12.82%
Total expenses	1,580,820	1,537,196	43,624	2.84%
Capital contributions	1,003,844	-	1,003,844	100.00%
Change in net position	1,053,835	25,440	1,028,395	4042.43%
Beginning net position	4,242,833	4,705,672	(462,839)	-9.84%
Restatement - GASB Statement No. 68 implementation	-	(488,279)	488,279	-100.00%
Net position - beginning - restated	4,242,833	4,217,393	25,440	0.60%
Ending net position	\$ 5,296,668	\$ 4,242,833	\$ 1,053,835	24.84%

Operating revenues showed 2.97% and 4.33% increases in 2017 to 2016, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

At the end of fiscal year 2017 the system had \$8.37 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, utility plant in service, and construction in progress.

The following tables summarizes the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended December 31, 2017 and 2016. These changes are presented in detail in Note 3E to the financial statements.

Table 3A

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	December 31, 2017	December 31, 2016	Increase (Decrease)	
			\$	%
Land	\$ 143,164	\$ 143,164	\$ -	0.00%
Utility plant in service	15,059,124	10,342,173	4,716,951	45.61%
Construction in progress	-	4,491,686	(4,491,686)	-100.00%
Accumulated depreciation	(6,836,910)	(6,443,719)	(393,191)	6.10%
Total capital assets	\$ 8,365,378	\$ 8,533,304	\$ (167,926)	-1.97%

Table 3B
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	December 31, 2016	December 31, 2015	Increase (Decrease)	
			\$	%
Land	\$ 143,164	\$ 143,164	\$ -	0.00%
Utility plant in service	10,199,283	10,199,283	-	0.00%
Construction in progress	2,954,076	2,954,076	-	0.00%
Accumulated depreciation	(6,111,127)	(6,111,127)	-	0.00%
Total capital assets	<u>\$ 7,185,396</u>	<u>\$ 7,185,396</u>	<u>\$ -</u>	0.00%

Debt Administration

The District has outstanding bonds and notes payable of \$3.85 million as of December 31, 2017. Principal payments are due in the upcoming fiscal year in the amount of \$58,500 with interest payments totaling \$85,967 also due. Details relating to the outstanding debt can be found in Note 3F. The District also has plans to issue new debt and refund the outstanding debt in the upcoming year, however no plans have been finalized.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District will continue to function under the current operations. Management will do everything possible to keep the customer costs as low as possible and continue to maintain the District's financial position. The District has no current plans to expand or increase costs to its customers.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the commissioners at the office located at 96 Carroll Road, Benton, Kentucky 42025, or by telephone at (270) 527-3208.

NORTH MARSHALL WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash on hand	\$ 1,000	\$ 1,000
Cash in bank - unrestricted	1,190,111	947,608
Accounts receivable - customer (less allowance of \$54,462)	236,855	222,104
Inventory	78,387	83,880
Prepaid expenses	22,534	19,707
Total current assets	<u>1,528,887</u>	<u>1,274,299</u>
Noncurrent assets:		
Cash in bank - restricted	62,214	53,417
Total restricted cash accounts	<u>62,214</u>	<u>53,417</u>
Capital assets:		
Land	143,164	143,164
Construction in progress	-	4,491,686
Utility plant in service	15,059,124	10,342,173
Less: Provision for depreciation	<u>(6,836,910)</u>	<u>(6,443,719)</u>
Total capital assets	<u>8,365,378</u>	<u>8,533,304</u>
Total noncurrent assets	<u>8,427,592</u>	<u>8,586,721</u>
Total assets	<u>9,956,479</u>	<u>9,861,020</u>
Deferred outflows of resources:		
Pension contributions subsequent to the measurement date	43,343	40,916
Pension changes in proportion of contributions	73,909	41,871
Pension - difference between projected and actual earnings	13,463	78,150
Pension changes of assumptions	200,854	44,037
Pension - difference between expected and actual experience	<u>1,350</u>	<u>3,629</u>
Total deferred outflows of resources	<u>332,919</u>	<u>208,603</u>

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

NORTH MARSHALL WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2017 and 2016

	2017	2016
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	2,439	15,812
Other accrued liabilities	16,169	17,050
Current portion of bonds and notes payable	58,500	-
Total Current liabilities (payable from current assets)	<u>77,108</u>	<u>32,862</u>
Current liabilities (payable from restricted assets):		
Customer deposits	52,843	53,591
Total current liabilities	<u>129,951</u>	<u>86,453</u>
Noncurrent liabilities:		
Accrued vacation	5,214	5,214
Bonds payable	3,791,500	3,850,000
Net pension liability	1,088,481	831,288
Total noncurrent liabilities	<u>4,885,195</u>	<u>4,686,502</u>
Total liabilities	<u>5,015,146</u>	<u>4,772,955</u>
Deferred inflows of resources:		
Pension - difference between expected and actual experience	27,630	-
Total deferred outflows of resources	<u>27,630</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	4,515,378	4,683,304
Unrestricted	731,244	613,364
Total net position	<u>\$ 5,246,622</u>	<u>\$ 5,296,668</u>

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

NORTH MARSHALL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Charges for sales and services	1,521,288	1,552,455
Other operating revenue	<u>156,743</u>	<u>77,115</u>
Total operating revenues	<u>1,678,031</u>	<u>1,629,570</u>
Operating expenses:		
Costs of sales and service	173,384	186,007
Maintenance	383,500	325,135
Customer accounts	42,109	35,822
Administrative and general expenses	796,815	685,363
Provision for depreciation	<u>393,191</u>	<u>332,592</u>
Total operating expenses	<u>1,788,999</u>	<u>1,564,919</u>
Operating income (loss)	<u>(110,968)</u>	<u>64,651</u>
Nonoperating revenues (expenses):		
Interest income	1,391	1,241
Interest expense	<u>(86,625)</u>	<u>(15,901)</u>
Total nonoperating revenues (expenses)	<u>(85,234)</u>	<u>(14,660)</u>
Income (loss) before contributed capital	(196,202)	49,991
Capital contributions	<u>146,156</u>	<u>1,003,844</u>
Change in net position	<u>(50,046)</u>	<u>1,053,835</u>
Net position - beginning	5,296,668	4,242,833
Net position - ending	<u>\$ 5,246,622</u>	<u>\$ 5,296,668</u>

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

NORTH MARSHALL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from consumers	\$ 1,663,280	\$ 1,788,088
Cash paid to suppliers of goods and services	(803,814)	(948,532)
Cash paid to employees for services	(443,075)	(421,143)
Change in customer deposits	(748)	4,772
Net cash provided by (used in) operating activities	<u>415,643</u>	<u>423,185</u>
Cash flows from investing activities:		
Interest received from investments	<u>1,391</u>	<u>1,241</u>
Net cash provided by (used in) investing activities	<u>1,391</u>	<u>1,241</u>
Cash flows from capital and related financing activities:		
Payment on long-term debt	-	-
Construction and acquisition of plant	(225,265)	(1,680,500)
Proceeds from issuance of bonds	-	533,766
Contributed capital from grants and consumers	146,156	1,003,844
Interest and other non-operating expenses	(86,625)	(15,901)
Net cash provided by (used in) financing activities:	<u>(165,734)</u>	<u>(158,791)</u>
Increase (decrease) in cash and cash equivalents	251,300	265,635
Cash and cash equivalents - beginning	<u>1,002,025</u>	<u>736,390</u>
Cash and cash equivalents - ending	<u>\$ 1,253,325</u>	<u>\$ 1,002,025</u>
Cash and cash equivalents:		
Restricted cash in bank	\$ 62,214	\$ 48,563
Unrestricted cash on hand	1,000	1,000
Unrestricted cash in bank	<u>1,190,111</u>	<u>686,827</u>
Net cash and cash equivalents	<u>\$ 1,253,325</u>	<u>\$ 736,390</u>

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

NORTH MARSHALL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ (110,968)	\$ 64,651
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	393,191	332,592
Pension expense - actuarially determined	160,507	73,305
(Increase) decrease in current assets:		
Accounts receivable	(14,751)	158,518
Inventory	5,493	(37,856)
Prepaid expenses	(2,827)	(381)
Increase (decrease) in current liabilities:		
Accounts payable	(13,373)	(176,231)
Other current liabilities	(881)	3,815
Customer deposits	(748)	4,772
Net cash provided by (used in) operating activities	<u>\$ 415,643</u>	<u>\$ 423,185</u>

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

**NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the North Marshall Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to the governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

The North Marshall Water District's general purpose financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name),
- The District holds the corporate powers of the organization,
- The District appoints a voting majority of the organization's board,
- The District is able to impose its will on the organization,
- The organization has the potential to impose a financial benefit/burden on the District, and
- There is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the North Marshall Water District has no component units.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that generally result from providing services in connection with the Water District's principal ongoing operations.

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

C. Assets, Liabilities, and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for water service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts.

Inventories and Prepaid Items

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method at year end. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements as of year end.

Restricted Assets

Certain cash accounts and investments are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The District elects to use restricted assets before unrestricted assets when the situation arises when either can be used.

Capital Assets

The property, plant, and equipment are stated at original cost including all direct cost of materials and labor during the construction period. All donated material is stated at the current fair market value.

The costs of replacements, normal maintenance, and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the District, with the exception of Land and Construction in Process, are depreciated, using the straight line method over the following useful lives:

Utility Plant	20 - 50 years
Office and other equipment	5 - 20 years
Vehicles	5 years

Accrued Vacation

It is the District's policy to permit employees to accumulate earned but unused vacation. All vacation pay has been accrued and the current year's is reflected as a current liability and the prior year's is reflected as a noncurrent liability on the financial statements.

**NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

Long-term Obligations

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District has several items that qualify for this form of reporting - deferred outflows related to the pension plan as of December 31, 2017.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for this form of reporting - deferred inflows as of December 31, 2017.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Net Position

Equity is classified as net assets and displayed in the following two components:

- Net Investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Unrestricted - All other net positions that do not meet the description of the above categories.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The fiscal year 2018 budget was approved unanimously at the October 2017 Board meeting. The budget is not legally adopted but only used as a management tool.

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. For an investment, this is the risk that, in the event of a failure of the counterpart, the District will not be able to recover the value of its investments or the collateral securities that are in the possession of an outside party.

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute authorize the District to invest in obligations of the United States and its agencies and instrumentalities; bond or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to the District. As of December 31, 2017, all bank deposits were fully covered by federal depository insurance.

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

Receivables		
	2017	2016
Billed service for utility customers	\$ 291,316	\$ 276,566
Other receivable	-	-
Less: allowance for doubtful	(54,462)	(54,462)
Total	<u>\$ 236,854</u>	<u>\$ 222,104</u>

C. Restricted Assets

Restricted assets as of the fiscal year ends were made up of the following:

Restricted Assets		
	2017	2016
Cash in bank - restricted	<u>\$ 62,214</u>	<u>\$ 53,417</u>

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

D. Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The restricted net position amounts were as follows:

Net Position		
	2017	2016
Net investment in capital assets		
Net property, plant and equipment	\$ 8,365,378	\$ 8,533,304
Less: Debt as disclosed in Note 3F	3,850,000	3,850,000
	<u>4,515,378</u>	<u>4,683,304</u>
Unrestricted	891,751	613,364
Total net position	<u>\$ 5,407,129</u>	<u>\$ 5,296,668</u>

E. Capital Assets

Capital asset activity during the year was as follows:

Description	Balance at December 31, 2016	Additions	Disposals	Balance at December 31, 2017
Capital assets, not being depreciated				
Land	\$ 143,164	\$ -	\$ -	\$ 143,164
Construction in progress	4,491,686	155,683	4,647,369	-
Total capital assets not being depreciated	<u>4,634,850</u>	<u>155,683</u>	<u>4,647,369</u>	<u>143,164</u>
Capital assets, being depreciated				
Utility plant in service	10,342,173	4,716,953	-	15,059,126
Less accumulated depreciation for:				
Utility plant in service	6,443,719	393,191	-	6,836,910
Total capital assets, being depreciated, net	<u>3,898,454</u>	<u>4,323,762</u>	<u>-</u>	<u>8,222,216</u>
Total capital assets, net	<u>\$ 8,533,304</u>	<u>\$4,479,445</u>	<u>\$4,647,369</u>	<u>\$ 8,365,380</u>

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Description	Balance at December 31, 2015	Additions	Disposals	Balance at December 31, 2016
Capital assets, not being depreciated				
Land	\$ 143,164	\$ -	\$ -	\$ 143,164
Construction in progress	2,954,076	1,537,610	-	4,491,686
Total capital assets not being depreciated	3,097,240	1,537,610	-	4,634,850
Capital assets, being depreciated				
Utility plant in service	10,199,283	142,890	-	10,342,173
Less accumulated depreciation for:				
Utility plant in service	6,111,127	332,592	-	6,443,719
Total capital assets, being depreciated, net	4,088,156	(189,702)	-	3,898,454
Total capital assets, net	\$ 7,185,396	\$ 1,347,908	\$ -	\$ 8,533,304

Depreciation expense amounted to \$393,191 and \$332,592 for the fiscal years ended December 31, 2017 and 2016, respectively.

F. Long-term Debt

At year end, the District's long-term liabilities consisted of the following loan:

- (1) First Kentucky Bank, the balance of the loan was fully paid off as of December 31, 2017.
- (2) The District issued a new 2014 USDA Series Bond in the amount of \$3.85 million during the current year. For 2018, \$86 thousand in interest and \$59 thousand in principal will be paid.

The following is a summary of long-term debt transactions for the year ended December 31, 2017 and 2016.

	Balance 12/31/16	Issued	Retired	Balance 12/31/17	Due Within One Year
2014 USDA Series Bond	3,850,000	-	-	3,850,000	59,500
Total long-term debt	3,850,000	-	-	3,850,000	59,500
Accrued vacation	5,214	-	-	5,214	-
Total Long-Term Liabilities	\$ 3,855,214	\$ -	\$ -	\$ 3,855,214	\$ 59,500

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

	Balance 12/31/15	Issued	Retired	Balance 12/31/16	Due Within One Year
2014 USDA Series Bond	<u>3,316,234</u>	<u>533,766</u>	<u>-</u>	<u>3,850,000</u>	<u>-</u>
Total long-term debt	<u>3,316,234</u>	<u>533,766</u>	<u>-</u>	<u>3,850,000</u>	<u>-</u>
Accrued vacation	<u>5,214</u>	<u>-</u>	<u>-</u>	<u>5,214</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 3,321,448</u>	<u>\$ 533,766</u>	<u>\$ -</u>	<u>\$ 3,855,214</u>	<u>\$ -</u>

The scheduled annual requirements for long-term debt at December 31, 2017, including interest of \$3.85 million is as follows:

USDA Series 2014 Bond				
Year ended 12/31/2017	Total Principal	Total Interest	Total	
2018	\$ 58,500.00	\$ 85,966.88	\$	144,467
2019	60,000.00	84,633.76		144,634
2020	62,000.00	83,261.26		145,261
2021	63,500.00	81,849.38		145,349
2022	65,500.00	80,398.13		145,898
2023-2027	355,500.00	378,737.54		734,238
2028-2032	406,500.00	335,954.41		742,454
2033-2037	466,500.00	286,913.52		753,414
2038-2042	533,500.00	230,732.76		764,233
2043-2047	611,000.00	166,467.28		777,467
2048-2052	701,000.00	92,780.53		793,781
2053-2055	466,500.00	17,896.02		484,396
	<u>\$ 3,850,000</u>	<u>\$ 1,925,591</u>	<u>\$</u>	<u>5,775,591</u>

G. Short-term Debt

At year end, the District's short-term debt had been fully paid off and carried a \$0 balance.

NOTE 4 – OTHER INFORMATION

A. 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. During the year ended December 31, 2017, the District purchased commercial insurance for all of the above risks. Settled claims have not

**NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

B. Retirement Plan

For the years ended December 31, 2017 and 2016, the District's total covered payroll for all employees were \$470,917 and \$458,633. Covered payroll refers to all compensation paid by the District to active employees covered by the Plan.

County Employees Retirement System Non-Hazardous (CERS)

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit plan. CERS is administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Employee membership data related to the Plan as of June 30, 2017 was as follows:

Active members	14
Inactive members	22
Total members	<u>36</u>

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date	Before September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87
	Reduced retirement	At least 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice related disability benefits.

Net Pension Liability - The District's net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Contributions – Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The District's contributions to CERS for the year ended December 31, 2017 and 2016 were \$84,210 and \$76,143.

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 \$1,088,481 for its proportionate share of the net pension liability. The net pension liability for the plan 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 for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's proportion was 0.018596%.

For the years ended December 31, 2017 and 2016, the District recognized pension expenses of \$226,095 and \$133,140. At December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 1,350	\$ 27,630
Changes of assumptions	200,854	-
Net difference between projected and actual earnings on plan investments	13,463	-
Changes in proportion and differences between District contributions and proportionate share of contributions	73,909	-
District contributions subsequent to the measurement date	43,343	-
Total	<u>\$ 332,919</u>	<u>\$ 27,630</u>

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 3,629	\$ -
Changes of assumptions	44,037	-
Net difference between projected and actual earnings on plan investments	78,150	-
Employer contributions subsequent to the measurement date	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	41,871	-
District contributions subsequent to the measurement date	40,916	-
Total	<u>\$ 208,603</u>	<u>\$ -</u>

Deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year 1	\$ 80,763
Year 2	65,299
Year 3	64,485
Year 4	51,399
Year 5	-
Thereafter	-

Actuarial assumptions – The actuarially determined contribution rates effective for fiscal year ending 2017 that are documented in the schedule on the previous pages are calculated as of June 30, 2015. Based on the June 30, 2015 actuarial valuation report (produced by the prior actuary), the actuarial methods and assumptions used to calculate these contribution rates are below:

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Actuarial cost method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Inflation	3.25 percent
Projected salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

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.

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a 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.

**NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalent	<u>2%</u>	-0.25%
Total	100%	

Discount rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

<u>2017</u>			
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's net pension liability	850,642	1,088,481	1,372,810
<u>2016</u>			
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's net pension liability	1,035,694	831,288	655,735

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

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Draft Copy

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employee's Retirement System
Fiscal Years Ending December 31,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability (asset)	0.015%	0.016%	0.017%	0.019%
District's proportionate share of the net pension liability (asset)	<u>\$ 488,279</u>	<u>\$ 688,613</u>	<u>\$ 831,288</u>	<u>\$ 1,088,481</u>
District's covered-employee payroll	\$ 387,798	\$ 405,480	\$ 458,633	\$ 470,917
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	125.91%	169.83%	181.25%	231.14%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	60.00%	55.50%	53.30%

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

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS
County Employee's Retirement System
Fiscal Years Ending December 31,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 65,626	\$ 65,048	\$ 76,143	\$ 84,210
Contributions in relation to the contractually required contribution	<u>65,206</u>	<u>65,048</u>	<u>76,143</u>	<u>84,210</u>
Contribution deficiency (excess)	<u>\$ 420</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 387,798	\$ 405,480	\$ 458,633	\$ 482,536
Contributions as a percentage of covered-employee payroll	16.81%	16.04%	16.60%	17.45%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2017

County Employees Retirement System

Changes of benefit terms - None.

Changes of 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 assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.00% to 2.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For health retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 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.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

Draft Copy

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF OPERATING INCOME AND EXPENSES
For the Year Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Gross water sales	\$ 1,529,484	\$ 1,559,541
Less: Bad debt expense	-	-
Less: leak adjustments	<u>(8,196)</u>	<u>(7,086)</u>
Net water sales	<u>1,521,288</u>	<u>1,552,455</u>
Fees:		
Connect and reconnect fees	24,118	26,046
Other water revenues	<u>132,625</u>	<u>51,069</u>
	<u>156,743</u>	<u>77,115</u>
 Total operating revenues	 <u>\$ 1,678,031</u>	 <u>\$ 1,629,570</u>
Operating expenses:		
Cost of sales and services		
Purchased power	133,948	145,572
Salaries and wages	4,593	4,852
Treatment chemicals	20,599	26,590
Contractual services	<u>14,244</u>	<u>8,993</u>
	<u>173,384</u>	<u>186,007</u>
 Maintenance:		
Salaries and wages	193,811	204,096
Materials and supplies	77,281	57,121
Contractual services	<u>112,408</u>	<u>63,918</u>
	<u>383,500</u>	<u>325,135</u>
 Customer accounts expense:		
Meter reading	17,005	14,790
Accounting and collection	<u>25,104</u>	<u>21,032</u>
	<u>42,109</u>	<u>35,822</u>

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF OPERATING INCOME AND EXPENSES
For the Year Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Administrative and general expenses		
Salaries and wages	239,431	238,373.00
Employee benefits and payroll taxes	119,717	106,627.00
Employee pensions	244,434	149,448.00
Office supplies	38,949	35,726.00
Office and shop utilities	3,083	3,114.00
Insurance	43,008	39,799.00
Advertising	169	61.00
Professional fees	35,974	44,968.00
Educational and training	14,672	15,424.00
Transportation	22,216	23,321.00
Uniforms	3,717	3,623.00
Office phones	16,010	16,747.00
Rental	3,638	2,845.00
Miscellaneous	11,797	5,287.00
	<u>796,815</u>	<u>685,363.00</u>
Provision for depreciation	<u>393,191</u>	<u>332,592.00</u>
Total operating expense	<u>\$ 1,788,999</u>	<u>\$ 1,564,919</u>

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF LONG-TERM DEBT
December 31, 2017

Year Ended	USDA Series 2014			Total
	Principal	Interest		
2018	58,500	85,967	\$	144,467
2019	60,000	84,634		144,634
2020	62,000	83,261		145,261
2021	63,500	81,849		145,349
2022	65,500	80,398		145,898
2023	67,500	78,902		146,402
2024	69,000	77,367		146,367
2025	71,000	75,792		146,792
2026	73,000	74,172		147,172
2027	75,000	72,506		147,506
2028	77,000	70,796		147,796
2029	79,000	69,042		148,042
2030	81,000	67,242		148,242
2031	83,500	65,391		148,891
2032	86,000	63,484		149,484
2033	88,500	61,521		150,021
2034	90,500	59,507		150,007
2035	93,000	57,442		150,442
2036	96,000	55,316		151,316
2037	98,500	53,128		151,628
2038	101,000	50,884		151,884
2039	104,000	48,578		152,578
2040	106,500	46,210		152,710
2041	109,500	43,779		153,279
2042	112,500	41,282		153,782
2043	115,500	38,717		154,217
2044	119,000	36,079		155,079
2045	122,000	33,367		155,367
2046	125,500	30,584		156,084
2047	129,000	27,720		156,720
2048	132,500	24,779		157,279
2049	136,500	21,752		158,252
2050	140,000	18,642		158,642
2051	144,000	15,447		159,447
2052	148,000	12,162		160,162
2053	152,000	8,786		160,786
2054	156,000	5,742		161,742
2055	158,500	3,368		161,868
	<u>\$ 3,850,000</u>	<u>\$ 1,925,591</u>	<u>\$</u>	<u>5,775,591</u>

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
WATER RATES IN FORCE
December 31, 2017

Water

\$2.64 per every 1,000 gallons of water plus a base charge

Residential Rate Schedule

Base

Residential 5/8"	\$18.94
Residential 1"	\$26.44
Residential 1 1/2"	\$38.95
Residential 2"	\$53.99
Residential 3"	\$89.03

Commercial Rate Schedule

Commercial 5/8"	\$18.94
Commercial 1"	\$26.44
Commercial 1 1/2"	\$38.95
Commercial 2"	\$53.99
Commercial 3"	\$89.03
Commercial 4"	\$139.12
Commercial 6"	\$264.30
4" Two-Meters	\$272.24
Reidland 4"	\$139.12

Sewer

\$60.00 minimum bi-monthly charge up to 12,000 gallons of water usage

\$5.00 for every 1,000 gallons over the 12,000 gallon limit

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Project or Grant Number</u>	<u>Expenditures</u>
U.S. Department of Agricultural Rural Passed through State of Tennessee Department Utilities Service Waste and Waste Disposal Systems for Rural Communities	10.760	N/A	<u>\$ 146,156</u>
US Department of Homeland Security Federal Emergency Management Agency Passed through Kentucky Emergency Management Agency Public Assistance - 2015	97.036	FEMA-4.78-DR-KY	<u>\$ 67,209</u>
Total Federal Awards			<u><u>\$ 213,365</u></u>

* - denotes a major program.

Note 1: The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of the District under the programs of the Federal government for the year ended December 31, 2017. The Schedule is presented using the modified accrual basis of accounting.

Note 2: Indirect Cost Rate: North Marshall Water District has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
For the Year Ended December 31, 2017

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Project or Grant Number</u>	<u>Expenditures</u>
US Department of Homeland Security Federal Emergency Management Agency Passed through Kentucky Emergency Management Agency Public Assistance - 2015	97.036	FEMA-4.78-DR-KY	\$ 10,753
Total Federal Awards			<u>\$ 10,753</u>

* - denotes a major program.

Note 1: The accompanying Schedule of State Financial Assistance summarizes the expenditures of the District under the programs of the State government for the year ended December 31, 2017.

The Schedule is presented using the modified accrual basis of accounting.

Note 2: Indirect Cost Rate: North Marshall Water District has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

INTERNAL CONTROL AND COMPLIANCE SECTION

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Commissioners
North Marshall Water District
Benton, 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 North Marshall Water District (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 May 21, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
May 21, 2018

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**Independent Auditor's Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the *Uniform Guidance***

Board of Commissioners
North Marshall Water District
Benton, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the North Marshall Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of North Marshall Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost and Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of North Marshall Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the North Marshall Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
May 21, 2018

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended December 31, 2017

Financial Statement Findings:

No prior year findings reported.

Federal award Programs and Questioned Costs:

There were no prior year findings required to be reported by Uniform Guidance.

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