NORTH MERCER WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2018

KERBAUGH, RODES & BUTLER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

DANVILLE, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

Chairman and Commissioners
North Mercer Water District
Salvisa, KY 40372

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the North Mercer Water District (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 District'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 business-type activities of the District, as of December 31, 2018, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 13 to the financial statements, in 2018, the District adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 3 through 6 and the historical pension and OPEB information on pages 27 through 30 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

We have previously audited the District's 2017 financial statements, and we expressed an unmodified opinion on the respective financial statements of the business-type activities in our report dated May 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, 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 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 the District's internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
May 28, 2019

NORTH MERCER WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

The management of North Mercer Water District (the District) presents this narrative to help our readers review the accompanying annual financial statements for the year ended December 31, 2018. We have prepared this overview and analysis of the District's financial activities to add additional information to the financial schedules and the note disclosures. Our analysis will examine the financial highlights for this fiscal year and help explain the format for our readers.

Financial Highlights

- As of December 31, 2018, the District's assets (page 8) exceeded liabilities by $3,540,919. This amount includes $3,578,629 of resources that are invested in capital assets, net of related debt. $(37,710) of these resources are unrestricted and are available to fund the District's outstanding obligations and future programs.
- Unrestricted cash and cash equivalents (page 7) as of December 31, 2018, were $297,164 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt) were $214,322.
- Net position (equity) decreased by $173,320 (page 9). However, it should be noted that this decrease includes depreciation expense of $466,329, a non-cash expense. The water loss percentage for the year was approximately 21.62% which represents an increase of 64.28% compared to the previous year.
- The District's total debt decreased $250,828 for the year ended December 31, 2018. The decrease was the result of scheduled principal payments.

Overview of the Financial Statements

This discussion and analysis is intended to introduce the District's financial statements. Basic financial statements include two major sections: 1) government-wide financial statements, and 2) notes to the financial statements.

The North Mercer Water District is a special-purpose governmental entity. It utilizes the accrual basis of accounting applicable to all *proprietary fund types.* Revenues are recognized when earned regardless of when received and expenses are recognized when incurred regardless of when paid.

Notes to the Financial Statements
Notes provide additional information that is essential to a full understanding of the information included in the financial statements. Notes provide additional details about the balances and transactions in the District's financial statements and are presented on pages 14 through 26.

Government-wide Financial Analysis

Net position (equity) may serve over time as a useful indicator of a government's financial position. 101% of the District's net position reflects its investment in capital assets (e.g. distribution system, equipment, etc), less any related debt used to acquire those assets that is still 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 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. (1)% of the District's net position is unrestricted.

The first statement in the government-wide statements is the Statement of Net Position. The following table summarizes the Statement of Net Position (pages 7-8).

	2018	2017
Current and other assets	$ 1,492,649	$ 1,437,942
Capital assets	9,719,629	10,096,070
Total Assets	11,212,278	11,534,012
Deferred outflows of resources	416,088	287,681
Long-term debt outstanding	6,141,000	6,391,828
Net pension liability	1,115,135	944,021
Net OPEB liability	325,073	324,228
Other liabilities	342,664	320,510
Total liabilities	7,923,872	7,980,587
Deferred inflows of resources	163,575	126,867
Net Position:		
Net investment in capital assets	3,578,629	3,704,242
Unrestricted	(37,710)	9,997
Total net position	$ 3,540,919	$ 3,714,239

The second statement in the government-wide statements is the Statement of Revenues, Expenses, and Changes in Net Position. The following table outlines the major components of this statement.

	2018	2017
Revenues:		
Charges for services	$ 2,364,340	$ 2,297,596
Grants and contributions	28,600	21,450
Rental income	3,336	3,261
Interest earnings	11,162	4,387
Total revenues	2,407,438	2,326,694
Expenses:		
Operating expenses, excluding depreciation	1,883,755	1,829,974
Depreciation	466,329	469,367
Interest and amortization	230,674	248,442
Total expenses	2,580,758	2,547,783
Increase (decrease) in net position	$ (173,320)	$ (221,089)

Capital Asset and Debt Administration

The District invests substantial resources in capital assets that support the services provided to its customers. All of the District's outstanding debt has been used to acquire or construct capital assets.

Capital Assets

The District's capital assets, net of accumulated depreciation are summarized below:

	2018	2017
Land	$ 48,802	$ 48,802
Buildings, structures & improvements	174,486	181,664
Equipment, vehicles, furniture, & fixtures	261,034	249,251
Transmission system	7,009,790	7,314,510
Distribution system	956,397	998,441
Water meters	1,235,246	1,283,376
Hydrants	5,472	6,012
Pump station equipment	12,671	14,014
Construction in progress	15,731	-
Total, net of depreciation	$ 9,719,629	$ 10,096,070

Long Term Debt

The principal outstanding on the District's long-term debt is summarized in the following table.

	2018	2017
Water revenue refunding bonds	$ 2,875,000	$ 3,020,000
Water revenue bonds	3,208,000	3,254,000
Notes due to State of Kentucky	-	57,500
Bond premium, Series 2016D	58,000	60,328
Total	$ 6,141,000	$ 6,391,828

The District's outstanding debt decreased $250,828 for the year ended December 31, 2018. The decrease was the result of scheduled principal payments.

Economic Factors for Next Year

As stated previously, the District has made tremendous progress during the fiscal years subsequent to 2011 in getting its water losses under control. Going forward, the District will continue to monitor its water losses and take the necessary action to keep them at an acceptable level.

The most significant economic factor identified by the District's management that will have a direct adverse effect on the financial condition of the District next year and beyond are the continued increases in the CERS employer contribution rates mandated by the state related to the employee pension and OPEB plans. The rates are expected to continue to increase at a significant pace and will make it necessary for management to allocate the necessary funds to meet these higher retirement costs in the future. The funded status of the CERS plan will have a significant impact on the required contributions and the District's proportionate share of the net pension and OPEB liabilities. House Bill 362 passed during the 2018 legislative session caps the CERS employer contribution rate increases to 12 percent per year over the prior fiscal year through 2028.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office, P.O. Box 79, Salvisa, KY 40372, telephone number (859) 865-2292.

NORTH MERCER WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2017)

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 297,164	$ 357,010
Cash and cash equivalents - restricted	602,184	487,107
Accounts receivable (net of allowance)	290,527	286,752
Inventory	56,899	54,654
Prepaid expenses	53,511	54,916
Total Current Assets	1,300,285	1,240,439
Non-Current Assets:		
Unamortized bond issuance costs	97,324	102,463
Investments	95,040	95,040
Capital assets, net	9,719,629	10,096,070
Total Non-Current Assets	9,911,993	10,293,573
Total Assets	11,212,278	11,534,012
Deferred outflows of resources	416,088	287,681
Total Assets and Deferred Outflows	$ 11,628,366	$ 11,821,693

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

NORTH MERCER WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2017)

	2018	2017
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 64,696	$ 53,408
Accrued liabilities	23,968	22,427
Customer deposits	125,658	114,111
Accrued interest payable	102,930	106,391
Current portion of long-term liabilities	213,000	248,500
Total Current Liabilities	530,252	544,837
Non-Current Liabilities:		
Accrued compensated absences	25,412	24,173
Net pension liability	1,115,135	944,021
Net OPEB liability	325,073	324,228
Water revenue bonds	5,928,000	6,143,328
Total Non-Current Liabilities	7,393,620	7,435,750
Total Liabilities	7,923,872	7,980,587
Deferred inflows of resources	163,575	126,867
NET POSITION		
Net investment in capital assets	3,578,629	3,704,242
Unrestricted	(37,710)	9,997
Total Net Position	3,540,919	3,714,239
Total Liabilities, Deferred Inflows and Net Position	$ 11,628,366	$ 11,821,693

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

NORTH MERCER WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	2018	2017
Operating Revenue:		
Water sales	$ 2,289,891	$ 2,208,793
Miscellaneous	74,449	88,803
Total Operating Revenue	2,364,340	2,297,596
Operating Expenses:		
Source of supply	797,903	721,379
Transmission and distribution	563,205	541,777
Customer accounts	180,150	212,462
General and administrative	300,771	314,509
Total Operating Expenses Before Taxes and Depreciation	1,842,029	1,790,127
Taxes	41,726	39,847
Depreciation	466,329	469,367
Total Operating Expenses	2,350,084	2,299,341
Operating Income	14,256	(1,745)
Non-Operating Revenue (Expenses):		
Rent	3,336	3,261
Interest income	11,162	4,387
Interest expense	(225,535)	(243,303)
Gain on sale of capital assets	-	-
Bond issuance costs	(5,139)	(5,139)
Total Non-Operating Revenue (Expenses)	(216,176)	(240,794)
Change in Net Position Before Capital Contributions	(201,920)	(242,539)
Capital contributions	28,600	21,450
Change in Net Position	(173,320)	(221,089)
Net Position - Beginning of Year, as Restated	3,714,239	3,935,328
Net Position - End of Year	$ 3,540,919	$ 3,714,239

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

NORTH MERCER WATER DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	Tap Fees	Contributions In Aid Of Construction	Retained Deficit	Total
Balance at January 1, 2017, as restated	$ 2,147,314	$ 4,834,335	$ (3,046,321)	$ 3,935,328
Tap fees	21,450	-	-	21,450
2017 portion of restatement of net position attributable to GASB 75 implementation			(69,913)	(69,913)
2017 change in net position before capital contributions	-	-	(172,626)	(172,626)
Balance at December 31, 2017	2,168,764	4,834,335	(3,288,860)	3,714,239
Tap fees	28,600	-	-	28,600
2018 change in net position before capital contributions	-	-	(201,920)	(201,920)
Balance at December 31, 2018	$ 2,197,364	$ 4,834,335	$ (3,490,780)	$ 3,540,919

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

NORTH MERCER WATER DISTRICT
STATEMENT OF OPERATING EXPENSES (BEFORE TAXES & DEPRECIATION)
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	Source of Supply	Transmission & Distribution-Operating	Transmission & Distribution-Maintenance	Customer Accounts	Administrative & General	Totals 2018	Totals 2017
Salaries & Wages-Employees	$ -	$ 32,880	$ 229,112	$ 89,160	$ 108,190	$ 459,342	$ 447,224
Salaries & Wages-Directors	-	-	-	-	18,102	18,102	18,000
Employee Pension & Benefits	-	20,194	140,714	54,760	66,448	282,116	343,431
Purchased Water	797,903	-	-	-	-	797,903	721,379
Purchased Power	-	22,846	-	-	6,395	29,241	25,325
Materials & Supplies	-	38,177	1,090	18,771	12,678	70,716	60,851
Contractual Services-Accounting	-	-	-	-	7,650	7,650	7,450
Contractual Services-Legal	-	-	-	-	6,000	6,000	9,350
Contractual Services-Water Testing	-	4,713	-	-	-	4,713	4,182
Contractual Services-Other	-	-	28,758	-	-	28,758	30,521
Transportation Expenses	-	31,496	-	-	2,772	34,268	30,022
Insurance-General Liability	-	-	-	-	26,546	26,546	26,874
Insurance-Worker's Compensation	-	683	4,761	1,853	2,248	9,545	9,422
Insurance-Other	-	-	-	-	954	954	-
Bad Debts	-	-	-	15,606	-	15,606	2,813
Miscellaneous Expenses	-	-	7,781	-	42,788	50,569	53,283
Total Operating Expenses*	$ 797,903	$ 150,989	$ 412,216	$ 180,150	$ 300,771	$ 1,842,029	$ 1,790,127

*Before taxes and depreciation

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

NORTH MERCER WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	2018	2017
Cash Flows From Operating Activities:		
Receipts from customers	$ 2,372,112	$ 2,264,354
Payments to suppliers	(1,113,747)	(990,012)
Payments for employee services & related benefits	(676,520)	(701,618)
Net Cash Provided by (Used in) Operating Activities	581,845	572,724
Cash Flows From Non-Capital Financing Activities:		
Interest paid on customer deposits	(179)	(734)
Net Cash Provided by (Used in) Non-Capital Financing Activities	(179)	(734)
Cash Flows From Capital and Related Financing Activities:		
Proceeds from tapping fees	28,600	21,450
Acquisition of capital assets	(89,888)	(88,635)
Rent	3,336	3,261
Principal paid on bonded debt	(191,000)	(144,500)
Principal paid on KIA debt	(57,500)	(80,000)
Interest paid on debt	(231,145)	(215,855)
Net Cash Used in Financing Activities	(537,597)	(504,279)
Cash Flows From Investing Activities:		
Interest income	11,162	4,387
Net Cash Provided by (Used in) Investing Activities	11,162	4,387
Net Increase (Decrease) in Cash & Cash Equivalents	55,231	72,098
Cash & Cash Equivalents - Beginning of Year	844,117	772,019
Cash & Cash Equivalents - End of Year	$ 899,348	$ 844,117

Continued

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

NORTH MERCER WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)
Continued

	2018	2017
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	$ 14,256	$ 68,168
Depreciation	466,329	469,367
Decrease (increase) in accounts receivable	(3,775)	(43,645)
Decrease (increase) in inventory	(2,245)	1,186
Decrease (increase) in prepaid expenses	1,405	(2,547)
Increase (decrease) in accounts payable	11,288	(37,245)
Increase (decrease) in customer deposits	11,547	10,403
Increase (decrease) in accrued compensated absences	2,780	14,686
Increase (decrease) in net pension obligation and related deferrals	80,260	92,351
Net Cash Provided by (Used in) Operating Activities	$ 581,845	$ 572,724

	2018	2017
Schedule of cash and cash equivalents:		
Beginning of period:		
Unrestricted cash and cash equivalents	$ 357,010	$ 351,219
Restricted cash and cash equivalents	487,107	420,800
Total cash and cash equivalents	$ 844,117	$ 772,019
End of period:		
Unrestricted cash and cash equivalents	$ 297,164	$ 357,010
Restricted cash and cash equivalents	602,184	487,107
Total cash and cash equivalents	$ 899,348	$ 844,117

	2018	2017
Non-Cash Financing and Investing Activities:		
Amortization of bond issuance costs	$ 5,139	$ 5,139
Amortization of bond premium	$ 2,328	$ 2,327

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The North Mercer Water District (the District) was established in 1959 under KRS 74.010 to provide water service for public health, convenience, fire protection, and comfort to the residents of northern Mercer County, Kentucky. Several expansions of the system have taken place in Mercer, Anderson, Boyle, and Washington Counties since the creation of the District. The Board of Commissioners consists of three members, all residents of Mercer County, appointed by the county judge.

North Mercer Water District has been appointed by the Mercer County Fiscal Court as an independent unit. The District selects management, staff, sets user charges, establishes budgets and controls all aspects of its daily activities.

The commissioners appoint the Chair(person) from existing members. The Chair responsibilities are to preside at all meetings; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission or business organization and exercise supervision over the business of the District, its officers and employees.

The accompanying statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Position

Cash and Investments
For purposes of the statement of cash flows, the District considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased, to be cash equivalents.

Restricted Assets
Restricted assets represent cash and cash equivalents whose use is limited by legal requirements.

Accounts Receivable
All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles. At December 31, 2018, the allowance for uncollectibles was $62,771.

Inventory
Inventory consists of materials and supplies on hand at the end of the year and is stated at the lower of cost (average cost method) or market.

Utility Plant
Utility plant is recorded at cost for items purchased or constructed and at estimated fair market value on the date donated for contributed items. The capitalization threshold for utility plant is $500. Depreciation is computed by the straight-line method based on the estimated useful lives of related asset classifications. It is the District's policy to depreciate assets one-half year in the year of acquisition and one-half year in the year of disposal or retirement.

Construction in Progress
Construction work in progress represents costs accumulated for the replacement of sections of the District's transmission and distribution systems, plant expansions and rehabilitations, and other projects that were not completed at year end.

Compensated Absences
It is the District's policy to permit employees to accumulate earned but unused vacation benefits. Employees may, depending on level and length of service, be paid for various amounts of their total accrued leave upon termination or retirement. The District accrues a liability for leave hours that meet the criteria for payment at the eligible employees' current rates of pay plus retirement benefits and employment taxes. The accrual for compensated absences at December 31, 2018 was $25,412.

Long-Term Obligations
Long-term debt and other long-term obligations are reported as liabilities on the District's statement of net position.

Bond Issuance Costs
The Government Accounting Standards Board (GASB) issued GASB Statement #65, effective for fiscal years beginning after December 15, 2012. GASB Statement #65 changed the method of accounting for debt issuance costs. Prior to the issuance of GASB Statement #65, debt issuance costs were recognized in a systematic manner over the life of the related debt. However, GASB Statement #65 states that debt issuance costs (with the exception of prepaid insurance costs) should be recognized in the year they are incurred. Furthermore, regulated utilities are allowed to apply certain criteria outlined in GASB Statement #62 to determine if they can continue to amortize debt issuance costs. If the criteria are met, then debt issuance costs would continue to be amortized over the life of the related debt. The District has reviewed the criteria contained in GASB Statement #62 and has determined that it remains appropriate to amortize its bond issuance costs consistent with how it has treated them in prior years.

Net Position
Net position represents the differences between assets and liabilities in the statement of net position.

1. Net investment in capital assets represents net position invested in capital assets reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.
2. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governmental entities.

The District has determined that when both restricted and unrestricted funds are available, that they will use the restricted resources first.

Budget
In accordance with the District's enabling legislation, the Commission holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlays. The budget is adopted on a basis consistent with generally accepted accounting principles. It is monitored at various levels of classification detail within the enterprise fund.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates.

NOTE 2. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, *"Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements"*. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk.

Deposits
At year-end, the carrying amount of the District's deposits was $899,348 and the bank balance was $959,761. The bank balance covered by federal depository insurance was $732,417. The remaining deposits were classified as Category 2, collateralized, as defined by GASB (securities are pledged with the financial institution's trust department or agent in the District's name).

Investments

Category 1	Insured or registered, with securities held by the District or its agent in the District’s name.
Category 2	Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the District’s name.
Category 3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District’s name.

The District has investments of $95,040 in bank certificates of deposit. The certificates of deposit are covered by federal depository insurance.

NOTE 3. RESTRICTED ASSETS

Under the District’s bond agreements, the District is required to transfer to the Debt Service Account on or before the last day of each month the following amounts:

- Interest-deposit the sum together with the balance in this account an amount equal to the interest on all outstanding bonds accrued and unpaid and to accrue to the end of the then current calendar month.

- Principal-deposit the sum together with the balance in this account an amount equal to (a) the principal amount of all outstanding bonds other than term bonds due and unpaid, (b) that portion of the principal amount of the bonds next due which would have accrued on such bonds other than term bonds next due during the current calendar month if such principal amount thereof were deemed to accrue monthly in equal installments from a date one year preceding the due date of such bonds next due and (c) the portion of the principal amount of the bonds next due which shall have accrued on such basis in prior months.
- Depreciation-deposit a monthly sum until the depreciation account reaches the balance required by bond agreements.

NOTE 4. LONG-TERM DEBT

Kentucky Infrastructure Loan of 1993 (KIA)
The Kentucky Infrastructure has first pledge of gross income and revenues derived from the operation of the system to pay for the District's portion of the debt service requirements of the Kentucky Infrastructure Authority Revenue Bonds, Series 1993E dated April 7, 1993, which redeemed and retired KIA Bonds series 1988A and 1988B.

Waterworks Revenue Bonds. Series 2011A
The District authorized the issuance of $1,547,000 in "Waterworks Revenue Bonds" by resolution to finance the construction of additions and improvements to the system. On January 19, 2012, the U.S. Department of Agriculture Rural Development purchased the entire issue at 3.75% interest rate. The bonds are payable and secured by a second pledge of revenues derived from the operation of the system, subject to the priority of a prior obligation to the Kentucky Infrastructure Authority of first pledge revenues.

Waterworks Revenue Bonds. Series 2011
The District authorized the issuance of $1,874,000 in "Waterworks Revenue Bonds" by resolution to finance the construction of additions and improvements to the system. On January 19, 2012, the U.S. Department of Agriculture Rural Development purchased the entire issue at 3.75% interest rate. The bonds are payable and secured by a second pledge of revenues derived from the operation of the system, subject to the priority of a prior obligation to the Kentucky Infrastructure Authority of first pledge revenues.

Waterworks Refunding Revenue Loan, Series 2010C

On June 10, 2010, the District issued Waterworks Refunding Revenue Loan, Series 2010C in the amount of $1,790,000 with an interest rate of 2.2%-4.325% for the purpose of refunding and retiring the outstanding Waterworks Revenue Bonds of 1992 and the Waterworks Refunding Revenue Bonds Series 1996, with interest rates of 5.375%-5.5%. The Waterworks Refunding Revenue Loan, Series 2010C were issued at a par amount of $1,790,000 and, after paying issuance cost and discount of $63,590, the net proceeds were $1,726,410. The refunding met the requirements of an in-substance debt defeasance and the Revenue Bonds were removed from the District's long-term debt.

As a result of the refunding, the District reduced its total debt service requirements by $488,774, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $327,270.

Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Bonds, Series 2016D

On November 30, 2016, the District issued Kentucky Rural Water Finance Corporation (KRWFC) Public Projects Refunding and Improvement Bonds, Series 2016D (2016D Bonds) in the amount of $1,845,000 with fixed interest rates ranging from 3.6%-5.1% for the purpose of refunding and retiring the outstanding Waterworks Revenue Bonds of 1994, Waterworks Revenue Bonds of 1996, and Waterworks Revenue Bonds of 2003, with interest rates of 4.375%-5.5%. The 2016D Bonds were issued at a premium of $62,849 and after paying issuance cost, the net proceeds were $1,907,849. The refunding met the requirements of an in-substance debt defeasance and the Revenue Bonds were removed from the District's long-term debt.

As a result of the refunding, the District reduced its total debt service requirements by $203,874, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $145,208.

Long-term debt activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increases	Reductions	Ending Balance	Due Within One Year
Waterworks refunding loan series 2010C	$ 1,175,000	$ -	$ (105,000)	$ 1,070,000	$ 110,000
Water revenue bonds series 2011	1,790,000	-	(23,500)	1,766,500	24,500
Water revenue bonds series 2011A	1,464,000	-	(22,500)	1,441,500	23,500
KRWFC Refunding Bonds, Series 2016D	1,845,000	-	(40,000)	1,805,000	55,000
Bonds payable total	6,274,000	-	(191,000)	6,083,000	213,000
Note due to state of Kentucky	57,500	-	(57,500)	-	-
Bond Premium, Series 2016D	60,328	-	(2,328)	58,000	-
Long-term debt total	$ 6,391,828	$ -	$ (250,828)	$ 6,141,000	$ 213,000

The future maturity amounts and related interest costs for all long-term debt are as follows:

Year Ending	Bonds		KIA Loan		Total	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 213,000	$ 222,763	$ -	$ -	$ 213,000	$ 222,763
2020	214,500	215,063	-	-	214,500	215,063
2021	226,500	207,063	-	-	226,500	207,063
2022	234,000	198,561	-	-	234,000	198,561
2023	251,000	189,220	-	-	251,000	189,220
2024-28	925,500	824,557	-	-	925,500	824,557
2029-33	1,091,500	625,171	-	-	1,091,500	625,171
2034-38	822,500	443,336	-	-	822,500	443,336
2039-43	907,000	290,968	-	-	907,000	290,968
2044-48	706,000	146,708	-	-	706,000	146,708
2049-51	491,500	25,568	-	-	491,500	25,568
Total	$ 6,083,000	$ 3,388,978	$ -	$ -	$ 6,083,000	$ 3,388,978

NOTE 5. WATER RATES

The overall water rate for the year ending December 31, 2018 was $18.22 per thousand gallons for the first 1,000 gallons of water consumed and various amounts per thousand gallons in excess of 1,000 gallons. The minimum water bill, which includes 1,000 gallons of water consumption, is $18.22 per month.

The number of customer accounts billed during December 2018 was 5,032.

NOTE 6. OTHER OPERATING REVENUES

Other miscellaneous operating revenues consisted of the following for the year ended December 31, 2018:

Penalty Charges	$ 32,151
Service Charges	20,190
Miscellaneous	22,108
Total	$ 74,449

NOTE 7. RISK RETENTION

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risks of loss. There were not significant reductions in insurance coverage in 2018 from coverage in the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no presented claim liabilities at December 31, 2018.

NOTE 8. RETIREMENT

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

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

Contributions – For the year ended December 31, 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2018, participating employers contributed 19.18% of each employee's wages from January 1, 2018 to June 30, 2018, and 21.48% of each employee's wages from July 1, 2018 to December 31, 2018, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2015, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed $91,545 for the year ended December 31, 2018, or 100% of the required contribution. The contribution was allocated $69,128 to the CERS pension fund and $22,417 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2018, the District reported a liability of $1,115,135 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, (the latest information available) 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 participating entities, actuarially determined. At December 31, 2018, the District's proportion was .018310 percent, which was equal to its proportion measured as of June 30, 2018.

For the year ended December 31, 2018, the District recognized pension expense of $124,222. At December 31, 2018, the District reported 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 results	$ 36,373	$ 16,323
Changes of assumptions	108,981	-
Net difference between projected and actual earnings on Plan investments	51,855	65,226
Changes in proportion and differences between District contributions and proportionate share of contributions	75,231	20,391
District contributions subsequent to the measurement date	37,206	-
Total	$ 309,646	$ 101,940

The $37,206 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ending December, 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2019	$ 105,728
2020	69,634
2021	1,123
2022	(5,985)

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females) for active members and the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females) for healthy retired members. For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males).

The actuarial assumptions used in the June 30, 2018 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. Several factors are considered in evaluating the long-term rate of return assumptions 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 time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
US Large Cap Equity	8.5%	4.50%
US Mid Cap Equity	5.0%	4.50%
US Small Cap Equity	4.0%	5.50%
International Developed Equity	12.5%	6.50%
Emerging Markets Equity	5.0%	7.25%
Global Bonds	10%	3.00%
Global Credit	10%	3.75%
High Yield	3%	5.50%
Emerging Market Debt	4%	6.00%
Real Estate	5%	7.00%
Absolute Return	10%	5.00%
Real Return	10%	5.00%
Private Equity	10%	6.50%
Cash	3%	1.50%
Total	100%	5.13%

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. 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 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.25 percent) or 1 percentage-point higher (7.25 percent) than the current rate:

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.25%	$ 1,403,839
Current discount rate	6.25%	$ 1,115,135
1% increase	7.25%	$ 873,251

Payable to the Pension Plan – At December 31, 2018, the District reported a payable of $13,715 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2018. The payable includes both the pension and insurance contribution allocation.

NOTE 9. OTHER POSTEMPLOYMENT BENEFIT PLAN

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

Plan Description – CERS is a cost-sharing multiple-employer defined benefit other postemployment benefit plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. Health insurance benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – For the year ended December 31, 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2018, participating employers contributed 19.18% of each employee's wages from January 1, 2018 to June 30, 2018, and 21.48% of each employee's wages from July 1, 2018 to December 31, 2018, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

The District contributed $91,595 for the year ended December 31, 2018, or 100% of the required contribution. The contribution was allocated $69,128 to the CERS pension fund and $22,417 to the CERS insurance fund.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2018, the District reported a liability of $325,073 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB 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 participating entities, actuarially determined. At December 31, 2018, the District's proportion was .018309 percent.

For the year ended December 31, 2018, the District recognized OPEB expense of $(43,962). At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ -	$ 37,883
Changes of assumptions	64,922	751
Net difference between projected and actual earnings on Plan Investments	-	22,391
Changes in proportion and differences between District contributions and proportionate share of contributions	29,454	610
District contributions subsequent to the measurement date	12,066	-
Total	$ 106,442	$ 61,635

The $12,066 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending December 31,	
2019	$ 6,572
2020	6,572
2021	6,572
2022	10,921
2023	2,577
Thereafter	(473)

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%

Healthcare trend rates:

Pre - 65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females) for active members and the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females) for healthy retired members. For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males).

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period January 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. Several factors are considered in evaluating the long-term rate of return assumptions 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 time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Trend Rate – The following presents the District's proportionate share of the net OPEB liability calculated using the health care trend rate described above, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	District's proportionate share of net OPEB liability
1% decrease	$ 242,020
Current healthcare trend rate	$ 325,073
1% increase	$ 422,968

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
US Large Cap Equity	8.5%	4.50%
US Mid Cap Equity	5.0%	4.50%
US Small Cap Equity	4.0%	5.50%
International Developed Equity	12.5%	6.50%
Emerging Markets Equity	5.0%	7.25%
Global Bonds	10%	3.00%
Global Credit	10%	3.75%
High Yield	3%	5.50%
Emerging Market Debt	4%	6.00%
Real Estate	5%	7.00%
Absolute Return	10%	5.00%
Real Return	10%	5.00%
Private Equity	10%	6.50%
Cash	3%	1.50%
Total	100%	5.13%

Discount Rate – The discount rate used to measure the total OPEB liability was 5.85 percent. 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 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rates are determined on an annual basis. The discount rate uses an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in the Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The District's proportionate share of the implicit subsidy was $5,244 at December 31, 2018.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.85 percent, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85 percent) or 1-percentage-point higher (6.85 percent) than the current rate:

	Discount rate	District's proportionate share of net OPEB liability	
1% decrease	4.85%	$	411,513
Current discount rate	5.85%	$	325,073
1% increase	6.85%	$	250,083

Payable to the Pension Plan – At December 31, 2018, the District reported a payable of $13,715 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2018. The payable includes both the pension and insurance contribution allocation.

NOTE 10. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. In prior years, the Internal Revenue Code specified that the plan's assets were the property of the District until paid or made available to participants, subject only on an equal basis to the claims of the Authority's creditors. A 1996 federal law now requires all assets and income of Internal Revenue Code Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries.

Assets of the District's plan are administered by Kentucky Deferred Compensation under contract with the District. The administrator amended the plan as of January 1, 1998, to comply with the new federal law. Consequently, the plan's assets and liabilities are not reflected in the District's financial statements.

NOTE 11. CONTINGENCIES

As of December 31, 2018, the District did not have any pending litigation or potential non-disclosed liabilities.

The North Mercer Water District participates in federal loan programs, which are governed by various rules of the grantor agency. Costs charged to the program are subject to audit and adjustment by the grantor agency; therefore, to the extent that the District has not complied with the rules and regulations governing these programs, refunds of any money received may be required. In the opinion of the District, there are no significant contingent liabilities relating to the compliance with the rules and regulations governing the respective programs.

NOTE 12. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and Land Rights	$ 48,802	$ -	$ -	$ 48,802
Total capital assets not being depreciated	48,802	-	-	48,802
Capital assets, being depreciated:				
Structures and improvements	330,171	-	-	330,171
Other plant	892,444	49,010	-	941,454
Equipment	47,238	-	-	47,238
Water system	16,867,895	25,147	-	16,893,042
Construction in Process	-	15,731	-	15,731
Total capital assets being depreciated	18,137,748	89,888	-	18,227,636
Less accumulated depreciation for:				
Structures and improvements	(148,505)	(7,178)	-	(155,683)
Other plant	(653,635)	(34,273)	-	(687,908)
Equipment	(36,791)	(2,960)	-	(39,751)
Water system	(7,251,549)	(421,918)	-	(7,673,467)
Total accumulated depreciation	(8,090,480)	(466,329)	-	(8,556,809)
Capital Assets, Net	$ 10,096,070	$ (376,441)	$ -	$ 9,719,629

NOTE 13. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 75

During 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*, which addresses financial reporting for state and local government employers whose employees are provided with postemployment benefits other than pensions that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with postemployment benefits other than pensions. Under the new standards, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position.

The effects of the restatement of net position is as follows:

Net position, beginning of year	$ 4,038,467
Beginning net OPEB liability	(324,228)
Net position, beginning of year, as restated	$ 3,714,239

REQUIRED SUPPLEMENTARY INFORMATION

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Five Fiscal Years*

	2018	2017	2016	2015	2014
District's proportion of the net pension liability	0.018310%	0.016128%	0.017107%	0.016963%	0.016963%
District's proportionate share of the net pension liability (asset)	$ 1,115,135	$ 944,021	$ 842,261	$ 550,383	$ 621,321
District's covered employee payroll	$ 450,193	$ 437,991	$ 415,444	$ 415,954	$ 389,169
District's share of the net pension liability (asset) as a percentage of its covered payroll	247.70%	215.53%	202.74%	132.32%	159.65%
Plan fiduciary net position as a percentage of the total pension liability	49.26%	53.30%	55.50%	66.80%	61.22%

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

Notes:
There were no changes in benefit terms or the size or composition of the population covered by the benefit terms.

There were no changes to plan assumptions for the measurement period ending June 30, 2018.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the period ending June 30, 2017.

1. The assumed investment rate of return was decreased from 7.50% to 6.25%.
2. The assumed rate of inflation was reduced from 3.25% to 2.30%.
3. Payroll growth assumption was reduced from 4.00% to 3.05%.

There were no changes to plan assumptions for the measurement period ending June 30, 2016.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the period ending June 30, 2015.

1. The assumed investment rate of return was decreased from 7.75% to 7.50%.
2. The assumed rate of inflation was reduced from 3.50% to 3.25%.
3. The assumed rate of wage inflation was reduced from 1.00% to .75%.
4. Payroll growth assumption was reduced from 4.50% to 4.00%.
5. 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).
6. For healthy retired members and beneficiaries, the mortality table used is 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.
7. The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF PENSION PLAN CONTRIBUTIONS
Last Six Fiscal Years

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	$ 69,128	$ 62,629	$ 51,598	$ 53,034	$ 53,472	$ 46,871
Contributions relative to contractually required employer contribution	69,128	62,629	51,598	53,034	53,472	46,871
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 450,193	$ 437,991	$ 415,444	$ 415,954	$ 389,169	$ 371,402
Employer contributions as a percentage of covered-employee payroll	15.36%	14.30%	12.42%	12.75%	13.74%	12.62%

Notes:
There were no changes in benefit terms or size or composition of the population covered by the benefit terms.
See the previous page for the changes of assumptions effective for the measurement period ended June 30, 2018.

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

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Two Fiscal Years*

	2018	2017
District's proportion of the net OPEB liability	0.018309%	0.016128%
District's proportionate share of the net OPEB liability (asset)	$ 325,073	$ 324,228
District's covered employee payroll	$ 450,193	$ 437,991
District's share of the net OPEB liability (asset) as a percentage of its covered payroll	72.21%	74.03%
Plan fiduciary net position as a percentage of the total OPEB liability	64.24%	53.30%

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

Notes:

There were no changes in benefit terms or the size or composition of the population covered by the benefit terms.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2017:

1. The assumed investment rate of return was 6.25%.
2. The assumed rate of inflation was 2.30%.
3. Payroll growth assumption was 3.05%.
4. The healthcare trend rate starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65. The healthcare trend rate starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years for post-65.
5. 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).
6. For healthy retired members and beneficiaries, the mortality table used is 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.

NORTH MERCER WATER DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF OPEB CONTRIBUTIONS
Last Two Fiscal Years

	2018	2017
Contractually required employer contribution	$ 22,417	$ 20,328
Contributions relative to contractually required employer contribution	22,417	20,328
Contribution deficiency (excess)	$ -	$ -
District's covered employee payroll	$ 450,193	$ 437,991
Employer contributions as a percentage of covered-employee payroll	4.98%	4.64%

Notes:
There were no changes in benefit terms or size or composition of the population covered by the benefit terms.
See the previous page for the changes of assumptions effective for the measurement period ended June 30, 2018.

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

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*

Chairman and Commissioners
North Mercer Water District
Salvisa, KY 40372

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 business-type activities of the North Mercer Water District (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 28, 2019.

<u>Internal Control Over Financial Reporting</u>
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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the District'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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
May 28, 2019