

PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2017 and 2016

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December 31, 2017 and 2016

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PENDLETON COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2017 and 2016

L.R. Faulkner, Jr., Chairman

Dave Boden, Vice-Chairman

Brent Moore, Treasurer

Larry "Rick" Adams, Secretary

Joe Strange, Commissioner

Of Counsel

Jeff Dean, Pendleton County Attorney

Administration

Ricky King, General Manager



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

Independent Auditor's Report

To the Board of Commissioners
Pendleton County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pendleton County Water District (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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



-Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Pendleton County Water 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* on pages 5–9 and pension disclosure information on page 26 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 audits 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Pendleton County Water District's basic financial statements. The supplementary schedules on page 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018 on our consideration of Pendleton County Water 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 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 Pendleton County Water District's internal control over financial reporting and compliance.

Van Gorder, Walker + Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
June 18, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2017. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$8,379,818 (net position). This was an decrease of \$14,068 in comparison to an increase of \$106,707 in the prior year. This decrease between years is due to decreases in water sales, customer contributions, and county grants coupled with increases in employee wages, employee benefits and the net effect of change in pension expense related to booking the unfunded pension liability
- At the end of the current year, unrestricted net position was \$820,068.

USING THIS ANNUAL REPORT

The financial statements presented herein include all the activities of the District as prescribed in GASB Statements No. 34 through 82. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

The Statements of Net Position and Revenues, Expenses and Changes in Net Position

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of providing potable water to those customers.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2017 and 2016:

**Table 1
Net Position**

	<u>2017</u>	<u>2016</u>
Current assets	\$ 511,347	\$ 412,566
Restricted assets	1,311,141	1,597,995
Capital assets, net	8,781,708	8,642,862
Deferred outflows of resources - pension contribution	<u>245,652</u>	<u>110,086</u>
Total Assets and Deferred Outflows of Resources	<u>10,849,848</u>	<u>10,763,509</u>
Current liabilities	93,297	112,948
Liabilities payable from restricted assets	118,408	142,063
Long-term liabilities	2,174,599	2,075,682
Deferred inflows of resources - pension performance	<u>83,726</u>	<u>38,930</u>
Total Liabilities and Deferred Inflows of Resources	<u>2,470,030</u>	<u>2,369,623</u>
Net Position:		
Net investment in capital assets	7,291,803	7,067,187
Restricted	267,947	265,563
Unrestricted	<u>820,068</u>	<u>1,061,136</u>
Total Net Position	<u>\$ 8,379,818</u>	<u>\$ 8,393,886</u>

The District's net position for 2017 decreased .167% or (\$14,068) as compared to a 1.3% or \$106,707 increase in the previous year. This decrease is due to decreases in water sales contributions and grants coupled with increases in various expenses as explained under the financial highlights heading above.

The largest portion of the District's net position (87%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets 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 its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (3.2%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

Table 2 compares the revenues and expenses for the current year and the previous year.

**Table 2
Changes in Net Position**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water sales	\$ 1,318,574	\$ 1,323,763
Forfeited discounts	22,515	23,152
Miscellaneous services revenues	<u>13,526</u>	<u>23,804</u>
Total operating revenues	<u>1,354,615</u>	<u>1,370,719</u>
Operating expenses:		
Water purchased	432,283	431,125
Operation and maintenance expense	639,007	625,812
Depreciation	<u>230,280</u>	<u>222,652</u>
Total operating expenses	<u>1,301,570</u>	<u>1,279,589</u>
Net operating profit	<u>53,045</u>	<u>91,130</u>
Non-operating income (expenses)		
Investment income	7,487	7,696
Gain (loss) disposal of assets	-	(865)
Net effect on change in pension expense	(68,917)	(18,208)
Interest on long-term debt	(49,753)	(52,716)
Amortization of bond premium	<u>2,270</u>	<u>2,270</u>
Net non-operating expenses	<u>(108,913)</u>	<u>(61,823)</u>
Income (loss) before capital contributions	(55,868)	29,307
Capital contributions	<u>41,800</u>	<u>77,400</u>
Change in net position	(14,068)	106,707
Net position, January 1	<u>8,393,886</u>	<u>8,287,179</u>
Net position, December 31	<u>\$ 8,379,818</u>	<u>\$ 8,393,886</u>

SUMMARY OF CHANGES IN NET POSITION

Revenues

Operating revenues decreased (\$16,104) or 1.2% from 2016 to 2017. This is primarily due to the cool wet summer of 2017 which hampered water sales.

Operation and Maintenance Expense

Operation and maintenance expense increased \$13,195 or 2.1% from 2016 to 2017. This increase was primarily due to an increase in employee salaries and benefits.

Net Effect on Change in Pension Expense

In recording the District's proportionate share of the unfunded pension liability and the related deferred inflows and outflows, the District calculates the annual expense related to this unfunded liability. During 2017 this expense increased \$50,709 over the amount reported in 2016.

Capital Contributions

Capital contributions decreased (\$35,600) or 46% from 2016 to 2017. The District completed a small line extension project during 2016 that was partially funded by a \$25,000 grant from the Pendleton County Fiscal Court and \$14,450 of contributions from the 17 new customers added by the project. Since the District did not complete this type of project during 2017, capital contributions declined.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2017, the District had \$8,781,708 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net increase (additions less retirements and depreciation) of \$138,846. During 2017 the cost of new equipment and the construction cost of two small line extension projects exceeded depreciation expense for the year.

Table 3 Summarizes the District's capital assets at the end of 2017 as compared to 2016.

Table 3
Capital Assets at Year End

	<u>2017</u>	<u>2016</u>
Land	\$ 63,176	\$ 63,176
Transmission lines and equipment	12,976,923	12,605,548
Furniture and fixtures	55,024	55,024
Machinery and equipment	371,514	371,514
Buildings and improvements	335,092	335,092
Construction in progress	<u>6,850</u>	<u>9,099</u>
Subtotal	13,808,579	13,439,453
Accumulated depreciation	<u>(5,026,871)</u>	<u>(4,796,591)</u>
Capital Assets, net	<u><u>\$ 8,781,708</u></u>	<u><u>\$ 8,642,862</u></u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2017 compared to 2016.

	<u>2017</u>	<u>2016</u>
Bond payable obligations	\$ 1,476,000	\$ 1,549,500
Capitalized lease	-	10,000
Total	<u>\$ 1,476,000</u>	<u>\$ 1,559,500</u>

At year-end, the District had \$1,476,000 in outstanding bonds and leases compared to \$1,559,500 last year. This is a decrease of \$83,500 or 5.4%. This decrease is due to scheduled debt repayment by the District.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2018 projects operating income to decline by approximately \$82,000. This is due to projected increases in several expenses. The District has budgeted to add another employee to their payroll during 2018. This will increase both employee salaries and benefits. The percentage of employee wages that must be contributed to the County Employee Pension System is scheduled to increase from 19.18% to 28.05% on July 1, 2018, further increasing the cost of employee benefits. In addition, the cost of operation and maintenance supplies is budgeted to increase due to aging meters and parts that must be replaced.

FINANCIAL CONTACT

This financial report is designed to provide our 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 Administrative Office at 331 Highway 330 West, Falmouth, Kentucky 41040.

Ricky L. King
Ricky King, General Manager
Pendleton County Water District

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2017 and 2016
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	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 300,510	\$ 197,030
Accounts receivable	155,206	162,814
Inventories	30,618	29,228
Prepays	24,262	22,847
Accrued interest income	751	647
Total Current Assets	<u>511,347</u>	<u>412,566</u>
Restricted Assets		
Improvement, repair, and replacement	975,621	1,261,855
Depreciation reserve	191,723	190,648
Bond sinking fund	102,179	106,700
Customer deposits	41,618	38,792
Total Restricted Assets	<u>1,311,141</u>	<u>1,597,995</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	13,808,579	13,439,453
Less: accumulated depreciation	<u>(5,026,871)</u>	<u>(4,796,591)</u>
Total Capital Assets, net of depreciation	<u>8,781,708</u>	<u>8,642,862</u>
TOTAL ASSETS	10,604,196	10,653,423
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows related to pensions	<u>245,652</u>	<u>110,402</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>10,849,848</u>	<u>10,763,825</u>
LIABILITIES		
Current Liabilities		
Accounts payable	43,305	68,815
Accrued and withheld liabilities	48,292	40,733
Deferred income	1,700	3,400
Total Current Liabilities	<u>93,297</u>	<u>112,948</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds and lease obligations - current portion	58,500	83,500
Customer deposits	38,957	36,728
Accrued interest payable	20,951	21,835
Total Current Liabilities Payable From Restricted Assets	<u>118,408</u>	<u>142,063</u>
Long-Term Liabilities		
Bonds	1,417,500	1,476,000
Capital lease payable	-	-
Unamortized premium on debt	13,905	16,175
Net unfunded pension liability	743,194	583,507
Total Long-Term Liabilities	<u>2,174,599</u>	<u>2,075,682</u>
TOTAL LIABILITIES	2,386,304	2,330,693
DEFERRED INFLOW OF RESOURCES		
Deferred inflows related to pensions	<u>83,726</u>	<u>38,930</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>2,470,030</u>	<u>2,369,623</u>
NET POSITION		
Net investment in capital assets	7,291,803	7,067,187
Restricted	267,947	265,563
Unrestricted	820,068	1,061,136
TOTAL NET POSITION	<u>\$ 8,379,818</u>	<u>\$ 8,393,886</u>

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

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ending December 31, 2017 and 2016
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	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water revenue	\$ 1,341,089	\$ 1,346,915
Other service revenues	13,526	23,804
TOTAL OPERATING REVENUES	<u>1,354,615</u>	<u>1,370,719</u>
OPERATING EXPENSES		
Water purchased	432,283	431,125
Operations, maintenance, and administrative expenses	639,007	625,812
Depreciation	230,280	222,652
TOTAL OPERATING EXPENSES	<u>1,301,570</u>	<u>1,279,589</u>
OPERATING PROFIT	<u>53,045</u>	<u>91,130</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	7,487	7,696
Loss on disposal of assets	-	(865)
Net effect of change in pension expense	(68,917)	(18,208)
Interest on long-term obligations	(49,753)	(52,716)
Amortization of bond premium	2,270	2,270
NET NON-OPERATING EXPENSES	<u>(108,913)</u>	<u>(61,823)</u>
NET INCOME	(55,868)	29,307
CAPITAL GRANTS AND CONTRIBUTIONS	41,800	77,400
CHANGE IN NET POSITION	(14,068)	106,707
NET POSITION, JANUARY 1	8,393,886	8,287,179
NET POSITION, DECEMBER 31	<u>\$ 8,379,818</u>	<u>\$ 8,393,886</u>

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

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,362,223	\$ 1,355,064
Paid to suppliers for goods and services	(669,571)	(628,794)
Paid to or on behalf of employees for services	<u>(422,475)</u>	<u>(407,618)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>270,177</u>	<u>318,652</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(369,126)	(290,463)
Interest received on investments	<u>7,383</u>	<u>7,440</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(361,743)</u>	<u>(283,023)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long term debt	(83,500)	(80,500)
Interest paid on long term debt	(50,637)	(53,370)
Contributed capital received	22,100	40,800
Grant proceeds	18,000	40,000
Increase in restricted cash	286,854	(137,525)
(Decrease) increase in customer deposits	<u>2,229</u>	<u>(396)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>195,046</u>	<u>(190,991)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	103,480	(155,362)
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>197,030</u>	<u>352,392</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 300,510</u>	<u>\$ 197,030</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 53,045	\$ 91,130
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	230,280	222,652
Change in operating assets and liabilities		
Decrease (Increase) in receivables	7,608	(15,655)
Decrease (Increase) in inventories	(1,390)	1,222
Decrease (Increase) in prepaid assets	(1,415)	243
Increase (Decrease) in accounts payable	(25,510)	15,779
Increase (Decrease) in other accrued liabilities	<u>7,559</u>	<u>3,281</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 270,177</u>	<u>\$ 318,652</u>
SUPPLEMENTAL INFORMATION		
Interest expensed	<u>\$ (49,753)</u>	<u>\$ (58,310)</u>

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

<p>PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016</p>
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NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Pendleton County Water District (District) is a water utility, which provides service to residential and commercial customers in Pendleton County, Kentucky. The District was created by the Pendleton County Fiscal Court under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”) in 1958. The District’s current service area includes parts of Pendleton, Campbell, and Grant Counties.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Cash Equivalents

For purposes of the statements of net position and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government’s website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

<p>PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016</p>
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Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of the Statements of Revenues, Expenses, and Changes in Net Position.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress". When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors.

During 2017 and 2016 these contributions consisted of the following:

<u>Source</u>	<u>2017</u>	<u>2016</u>
Tap in fees and construction costs paid by new customers	\$ 23,800	\$ 37,400
Total	<u>\$ 23,800</u>	<u>\$ 37,400</u>

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the Statement of position as “Cash and Cash Equivalents” and “Restricted Assets”. At December 31, 2017 and 2016, the balances were \$300,510 and \$197,030, respectively. The District has amounts on deposit with three banks in excess of FDIC insured amounts. The banks have pledged collateral to cover such excess amounts. Funds in excess of current expenses or obligations of the District are invested in certificates of deposit issued by, or other interest bearing accounts of, banks that are insured by the Federal Deposit Insurance Corporation.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments' fair value measurements are as follows at December 31, 2017:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and Cash Equivalents				
Money market funds	\$ 1,054,943	\$ 972,857	\$ 82,086	\$ -
Certificate of deposits	556,708	556,708	-	-
Total	\$ 1,611,651	\$ 1,529,565	\$ 82,086	\$ -

Investments' fair value measurements are as follows at December 31, 2016:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and Cash Equivalents				
Money market funds	\$ 981,477	\$ 898,792	\$ 82,685	\$ -
Certificate of deposits	813,548	813,548	-	-
Total	\$ 1,795,025	\$ 1,712,340	\$ 82,685	\$ -

In accordance with GASB 40, the District has \$82,086 and \$82,685 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2017 and 2016, respectively. The market risk on these investments is negligible.

NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories. Included in the restricted portion of net position at December 31,

	2017	2016
Depreciation Reserve Fund	\$ 193,080	\$ 188,640
Bond Sinking Fund	74,867	76,923
Total Restricted Net Position	<u>\$ 267,947</u>	<u>\$ 265,563</u>

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment, including infrastructure assets, are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

The property, plant and equipment accounts are summarized as follows:

Asset Type	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
Land	\$ 63,176	\$ -	\$ -	\$ 63,176
Buildings and improvements	335,092	-	-	335,092
Distribution reservoirs and standpipes	786,103	211,408	-	997,511
Furniture and fixtures	55,024	-	-	55,024
Hydrants	198,526	5,221	-	203,747
Meter system and installation	597,932	5,730	-	603,662
Other plant and misc. equipment	158,772	-	-	158,772
Pumping equipment	448,724	-	-	448,724
Services	761,063	15,538	-	776,601
Tools and equipment	25,723	-	-	25,723
Transmission mains	9,813,199	133,478	-	9,946,677
Transportation equipment	187,020	-	-	187,020
Construction in progress	9,099	142,280	(144,529)	6,850
Subtotal	<u>13,439,453</u>	<u>513,655</u>	<u>(144,529)</u>	<u>13,808,579</u>
Accumulated depreciation	<u>(4,796,591)</u>	<u>(230,280)</u>	<u>-</u>	<u>(5,026,871)</u>
Capital Assets, net	<u>\$ 8,642,862</u>	<u>\$ 283,375</u>	<u>\$ (144,529)</u>	<u>\$ 8,781,708</u>

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

NOTE 5 – LONG TERM DEBT

The following is a summary of the District's debt:

Debt Instrument	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
Revenue bonds of 1977	\$ 15,000	\$ -	\$ (15,000)	\$ -
Revenue bonds of 2010	204,500	-	(3,500)	201,000
Kentucky Rural Water Finance Corp.	155,000	-	(20,000)	135,000
Kentucky Rural Water Finance Corp.	1,175,000	-	(35,000)	1,140,000
Capitalized lease	10,000	-	(10,000)	-
Subtotal	<u>1,559,500</u>	<u>\$ -</u>	<u>\$ (83,500)</u>	<u>1,476,000</u>
Less: current portion of long-term debt	<u>(83,500)</u>			<u>(58,500)</u>
Total Long-Term Indebtedness	<u>\$ 1,476,000</u>			<u>\$ 1,417,500</u>

Water Works System Revenue Bonds, U.S. Department of Agriculture 1977

On May 26, 1978, the District sold \$263,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds matured on December 1st of each year beginning in 1980, ending in 2017. Interest was payable on June 1st and December 1st and principal was due in annual installments on December 1st through 2017. The remaining debt was paid in full in 2017.

Water Works System Revenue Bonds, U.S. Department of Agriculture 2010

On July 30, 2010, the District sold \$220,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. Principal payments are due annually on January 1 of each year beginning in 2012 and ending in 2049. Interest is payable January 1 and July 1 of each year. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	3.25%	\$ 3,500	\$ 6,476	\$ 9,976
2019	3.25%	3,500	6,362	9,862
2020	3.25%	4,000	6,240	10,240
2021	3.25%	4,000	6,110	10,110
2022	3.25%	4,000	5,980	9,980
2023-2027	3.25%	22,500	27,812	50,312
2028-2032	3.25%	26,500	23,815	50,315
2033-2037	3.25%	32,000	19,094	51,094
2038-2042	3.25%	38,000	13,407	51,407
2043-2047	3.25%	45,000	6,678	51,678
2048-2049	3.25%	18,000	552	18,552
Totals		<u>\$ 201,000</u>	<u>\$ 122,526</u>	<u>\$ 323,526</u>

Kentucky Rural Water Finance Corporation

On March 27, 2013, The District entered into a loan agreement with the Kentucky Rural Water Finance Corporation (KRWFC) for a promissory note in the amount of \$215,000. Concurrent with this loan agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2013C which refunded the District's Series 2001A bonds. The water systems represent collateral

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on January 1 beginning in 2014 and ending January 1, 2024. Interest is payable January 1 and July 1 of each year. These bonds were issued at a premium of \$24,225 which is being amortized over the life of the bonds. As of December 31, 2017, \$2,270 of the premium was amortized. The District achieved substantial interest cost savings under this program.

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	4.300%	\$ 20,000	\$ 5,525	\$ 25,525
2019	4.300%	20,000	4,665	24,665
2020	4.300%	25,000	3,697	28,697
2021	4.300%	25,000	2,623	27,623
2022	4.300%	15,000	1,762	16,762
2023-2024	4.800%	30,000	1,440	31,440
Totals		\$ 135,000	\$ 19,712	\$ 154,712

Kentucky Rural Water Finance Corporation

On February 19, 2015, The District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation for a loan in the amount of \$1,210,000. Concurrent with this agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2015B which refunded the District's outstanding Series 1997 Bonds and Series 2004 Bonds. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on February 1 beginning in 2016 and ending February 1, 2041. Interest is payable February 1 and August 1 of each year. These bonds were issued at a premium of \$432 which is being amortized over the life of the bonds. The District achieves substantial interest cost savings under this program. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	2.250%	\$ 35,000	\$ 36,094	\$ 71,094
2019	2.250%	40,000	35,250	75,250
2020	2.250%	40,000	34,350	74,350
2021	2.250%	40,000	33,450	73,450
2022	3.250%	40,000	32,350	72,350
2023-2027	3.250%	230,000	140,137	370,137
2028-2032	3.250%	280,000	99,188	379,188
2033-2037	3.375%-3.500%	345,000	46,963	391,963
2038-2041	3.500%-3.625%	90,000	6,837	96,837
Totals		\$ 1,140,000	\$ 464,619	\$ 1,604,619

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

NOTE 6 – CAPITAL LEASE

In 1997, the District signed a capital sublease agreement for its office and storage facilities. The leased property of \$137,718 is included in buildings and improvements on the fixed asset summary in Note 4 and represents collateral on the lease. Amortization of the lease is included in depreciation expense. Final payment was made in 2017.

NOTE 7 – OPERATING LEASE

The District entered into an operating lease for a new copier, beginning May 2013 and continuing through April 2018. Payments under this lease were \$2,217 in 2017 and 2016. Future minimum lease payments are as follows:

Year	Lease Payments
2018	\$ 554
Totals	\$ 554

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM

The District’s eligible employees are covered by the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description-Employees are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statue (“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/>.

Benefits provided- CERS provides retirement and death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years of service.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

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 service or 65 years old
	Reduced Retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation Date	September 1, 2008 - December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 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 of service and hire date multiplied by the average of the 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.

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

Contributions

The District contributed 18.68% (from January – June of 2017) of which 13.95% was for the pension fund and 4.73% was for the health insurance fund, and 19.18% (from July – December of 2017) of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended December 31, 2017. The District made all required contributions for the Plan pension obligation for the fiscal year ended December 31, 2017 in the amount of \$58,972, of which \$44,287 was for the pension fund and \$14,685 was for the health insurance fund.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

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

At December 31, 2017, the District reported a liability of \$743,194 its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the District's employer allocation proportion was 0.012697% of the total CERS non-hazardous duty. The District's proportion was an increase of .000846% from its proportion measured as of June 30, 2016. For the year ended December 31, 2017, the District recognized a pension expense of \$113,204.

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 922	\$ 18,865
Net difference between projected and actual earnings on plan investments	58,860	49,668
Changes of assumptions	137,140	-
Changes in proportion and differences between District's contributions and proportionate share of contributions	25,798	15,193
District's contributions subsequent to the measurement date	<u>22,932</u>	<u>-</u>
Total	<u>\$ 245,652</u>	<u>\$ 83,726</u>

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, differences between projected and actual earnings on plan investments, changes of assumptions, and changes in proportion and differences between the District's contributions and proportionate share of contributions, all of which are deferred over the weighted average years of working lifetime of all plan participants (active and inactive) which is determined to be 3.50 and 3.51 years for 2017 and 2016, respectively. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5 year period. Deferred outflows related to the District's contributions subsequent to the measurement date are not amortized.

Deferred Outflows and Inflows of Resources

In 2017, \$245,652 was recognized as a deferred outflow of resources resulting from a) differences between expected and actual experience, b) difference between projected and actual earnings,

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

c) changes in assumptions, d) changes in proportion and differences between the District's contributions and proportionate share of contributions, and e) the District's contributions subsequent to the measurement date. In FY 2017, \$83,726 was recognized as a deferred inflow of resources resulting from a) difference between actual and expected experience, b) difference between projected and actual earnings, and c) changes in proportion.

The District's contributions subsequent to the measurement date of \$22,932 will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	Net Deferral Amortization
2018	\$ 53,339
2019	65,107
2020	30,091
2021	(9,543)
	<u>\$ 138,994</u>

Actuarial Assumptions

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

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	6.25%, net of pension plan expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (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 the margin will be reviewed when the next experience investigation is conducted. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. 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

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

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.

Changes of Assumptions

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate was decreased from 7.5% 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 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 assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	5.40%
Combined fixed income	28%	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	2%	-0.25%
Total	100%	

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016

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 members 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 assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	Discount Rate	District's Proportionate Share of Net Pension Liability
1% decrease	5.25%	\$ 937,329
Current discount rate	6.25%	743,194
1% increase	7.25%	580,802

Plan Fiduciary Net Position

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan’s fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

NOTE 9 – ECONOMIC DEPENDENCY/CREDIT RISK

Pendleton County Water District is a government agency operating with one office in Falmouth, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Pendleton, Campbell, and Grant Counties in Kentucky.

NOTE 10 – CONCENTRATIONS

The District has agreements to purchase water from the City of Falmouth, Kentucky and the Northern Kentucky Water District through the year 2047. In June 2001, the District signed an agreement to purchase water on an “as needed” basis from the City of Williamstown, Kentucky. This contract is in force until June 2021.

NOTE 11 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

**PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016**

Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*

Statement No. 77 – *Tax Abatement Disclosures*

Statement No. 78 – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

Statement No. 79 – *Certain External Investment Pools and Pool Participants*

Statement No. 80 – *Blending Requirements for Certain Component Unites – an Amendment of GASB Statement No. 14*

Statement No. 82 – *Pension Issues – an Amendment of GASB Statements No. 67, 68, and 73*

NOTE 12 – FUTURE ACCOUNTING STANDARDS

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – Implementation in FY 2018*

Statement No. 81 – *Irrevocable Split-Interest Agreements – Implementation in FY 2018*

Statement No. 83 – *Certain Asset Retirement Obligations – Implementation in FY 2019*

Statement No. 84 – *Fiduciary Activities – Implementation in FY 2020*

Statement No. 85 – *Omnibus 2017 – Implementation in FY 2018*

Statement No. 86 – *Certain Debt Extinguishment Issues – Implementation in FY 2018*

Statement No. 87 – *Leases – Implementation in FY 2021*

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events through June 18, 2018, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2016 through June 18, 2018 to disclose.

PENDLETON COUNTY WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN-NON-HAZARDOUS
Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.012697%	0.01185%	0.012160%							
Proportionate share of the net pension liability (asset)	\$ 743,194	\$ 583,507	\$ 522,805							
Covered employee payroll in year of measurement	271,095	284,737	324,301							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	274.15%	204.93%	161.21%							
Plan fiduciary net position as a percentage of total pension liability	55.50%	55.50%	59.97%							

Schedule of the District's Contributions
County Employees' Retirement System (CERS)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 43,127	\$ 33,670	\$ 36,304	\$ 44,559						
Actual contribution	43,127	33,670	36,304	44,559						
Contribution deficiency (excess)	-	-	-	-						
Covered employee payroll	309,151	271,095	284,737	324,301						
Contributions as a percentage of covered employee payroll	13.95%	12.42%	12.75%	13.74%						

Notes to Required Supplementary Information
for the Year Ended December 31, 2017

The net pension liability as of December 31, 2017, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 9 in the Notes to the Financial Statements.

PENDLETON COUNTY WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 293,403	\$ 282,605
Employee pension and benefits	112,631	104,294
Advertising	147	815
Bad debt expense	5,736	3,647
Commissioners' fees	24,000	24,000
Contractual services - accounting	23,720	21,760
Contractual services - other	28,374	29,589
Insurance - general and vehicle	20,556	20,177
Insurance - other	310	518
Insurance - workers' compensation	5,165	4,897
Maintenance	26,446	33,431
Materials and supplies	19,699	20,055
Miscellaneous	2,402	2,866
Purchased power	17,498	17,582
Regulatory commission	2,792	2,610
Rental of equipment	2,217	2,334
Taxes	25,257	22,791
Transportation	13,090	15,656
Utilities	15,564	16,185
	<u>639,007</u>	<u>625,812</u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 639,007</u>	<u>\$ 625,812</u>



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

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

To the Board of Commissioners
Pendleton County Water District

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 Pendleton County Water District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements which collectively comprise Pendleton County Water District's basic financial statements and have issued our report thereon dated June 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Pendleton County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pendleton County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pendleton County Water District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below, that we consider significant deficiencies.



Lack of Segregation of Duties

Condition: We noted that due to the size of the District and financial considerations, some of the executing and recording of transactions are performed by the same person.

Criteria: Segregation of duties is a necessary part of any system of internal control. Segregating the processes of authorizing, executing and recording transactions is essential.

Effect: Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account. The District has determined that the cost of mitigation is not justified when compared to the risk of the related transactions.

Recommendation: Due to the size of the District and other financial considerations, internal controls should be implemented, to the highest appropriate level, to segregate the duties of the personnel. Controls should then be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pendleton County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. Noncompliance 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 audits, 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.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
June 18, 2018