PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2018 and 2017

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PENDLETON COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2018 and 2017

L.R. Faulkner, Jr., Chairman

Dave Boden, Vice-Chairman

Brent Moore, Treasurer

Larry "Rick" Adams, Secretary

Joe Strange, Commissioner

Of Counsel

Stacey S. Sanning, 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, 2018 and 2017, 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.

3216 Dixie Highway • Erlanger, KY 41018 • Phone: (859) 431-0700 • Fax: (859) 655-4780

-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, 2018 and 2017 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.

Emphasis of a Matter – Implementation of New GASB Accounting Standard

As discussed in Note 7 to the financial statements, effective July 1, 2017, the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). 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 5–9 and pension and OPEB disclosure information on pages 30-31 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 32 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2019 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
May 24, 2019

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, 2018. 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 $8,107,722 (net position). This was a decrease of $75,999. This decrease is due to increases in employee wages, employee benefits and the net effect of change in pension expense related to booking the District's portion of the unfunded pension and OPEB liability.

- At the end of the current year, unrestricted net position was $554,572.

USING THIS ANNUAL REPORT

The financial statements presented herein include all the activities of the District accounted for within a single proprietary (enterprise) reporting entity. 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, 2018 and 2017:

Table 1
Net Position

	2018	(Restated) 2017
Current assets	$ 488,250	$ 511,347
Restricted assets	1,367,670	1,311,141
Capital assets, net	8,713,978	8,781,708
Deferred outflows of resources - pension & OPEB contribution	238,786	245,652
Total Assets and Deferred Outflows of Resources	10,808,684	10,849,848
Current liabilities	103,594	93,297
Liabilities payable from restricted assets	123,894	118,408
Long-term liabilities	2,371,966	2,370,696
Deferred inflows of resources - pension & OPEB	101,508	83,726
Total Liabilities and Deferred Inflows of Resources	2,700,962	2,666,127
Net Position:		
Net investment in capital assets	7,284,843	7,291,803
Restricted	268,307	267,947
Unrestricted	554,572	623,971
Total Net Position	$ 8,107,722	$ 8,183,721

The District's net position for 2018 decreased 0.9% or ($75,999). This decrease is due to increases in employee wages and benefits primarily from the addition of a new full time employee during 2018 and increases in the net effect of change in pension expense related to booking the District's portion of the unfunded pension and OPEB liability.

The largest portion of the District's net position (89.9%) 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 (3.3%) is 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

	2018	(Restated) 2017
Operating revenues:		
Water sales	$ 1,326,093	$ 1,318,574
Forfeited discounts	22,843	22,515
Miscellaneous services revenues	15,736	13,411
Total operating revenues	1,364,672	1,354,500
Operating expenses:		
Water purchased	430,167	432,283
Operation and maintenance expense	703,326	638,892
Depreciation	237,960	230,280
Total operating expenses	1,371,453	1,301,455
Net operating profit	(6,781)	53,045
Non-operating income (expenses)		
Investment income	12,207	7,487
Gain (loss) disposal of assets	1,700	-
Net effect on change in pension expense	(91,688)	(68,917)
Interest on long-term debt	(47,351)	(49,753)
Amortization of bond premium	2,270	2,270
Net non-operating expenses	(122,862)	(108,913)
Income (loss) before capital contributions	(129,643)	(55,868)
Capital contributions	53,644	41,800
Change in net position	(75,999)	(14,068)
Net position, January 1	8,183,721	8,393,886
Prior period adjustment-GASB 75	-	(196,097)
Net position, December 31	$ 8,107,722	$ 8,183,721

SUMMARY OF CHANGES IN NET POSITION

Revenues

Operating revenues increased $10,172 or 0.8% from 2017 to 2018. This is primarily due to the difference in weather conditions between the two years and the addition of new customers.

Operation and Maintenance Expense

Operation and maintenance expense increased $64,434 or 10.1% from 2017 to 2018. This increase was primarily due to an increase in employee salaries and benefits. The District added a full-time employee during 2018, employees received raises and the employers' share of retirement contributions increased from 19.18% to 21.48% of covered wages on July 1, 2018.

Net Effect on Change in Pension Expense
In recording the District's proportionate share of the unfunded pension and OPEB liability and the related deferred inflows and outflows, the District calculates the annual expense related to this unfunded liability. During 2018 this expense increased $22,771 or 33% over the amount reported in 2017.

Capital Contributions
Capital contributions increased $11,844 or 28.3% from 2017 to 2018. The District completed a small line extension project during 2018 adding 10 new customers or $8,500 in tap on fees. They also collected tap on fees from 31 new customers along existing lines during 2018 in comparison to 26 new customers during 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2018, the District had $8,713,978 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of $67,730. During 2018 depreciation expense exceeded the cost of new equipment and the construction cost of a small line extension project causing net capital assets to decrease.

Table 3 Summarizes the District's capital assets at the end of 2018 as compared to 2017.

Table 3
Capital Assets at Year End

	2018	2017
Land	$ 63,176	$ 63,176
Transmission lines and equipment	13,121,641	12,976,923
Furniture and fixtures	55,024	55,024
Machinery and equipment	380,974	371,514
Buildings and improvements	335,092	335,092
Construction in progress	8,012	6,850
Subtotal	13,963,919	13,808,579
Accumulated depreciation	(5,249,941)	(5,026,871)
Capital Assets, net	$ 8,713,978	$ 8,781,708

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2018 compared to 2017.

	2018	2017
Bond payable obligations	$ 1,354,000	$ 1,417,500
Total	$ 1,354,000	$ 1,417,500

At year-end, the District had $1,354,000 in outstanding bonds compared to $1,417,500 last year. This is a decrease of $63,500 or 4.5%. Scheduled principal payments for 2019 are $58,500.

GASB 68 PENSION AND GASB 75 OPEB LIABILITY RECOGNITION

As of December 31, 2018, the District is required, by Governmental Accounting Standards Board Statements No. 68 and 75, to display its proportionate share of the unfunded pension and OPEB liability of the Kentucky Retirement System's County Employee Retirement System (CERS), a cost sharing multiple employer plan, in which the District is a participant. The net pension and OPEB liability, $1,006,331, the deferred outflow of resources, $238,786, and the deferred inflow of resources, $101,508, on the Statement of Net Position at December 31, 2018 are a function of this required reporting. The 2017 Statement of Net Position has been restated by ($196,097) to include the addition of the net OPEB liability at December 31, 2017; a prior period adjustment was also recorded to recognize the OPEB expense. Detailed information on this pension and OPEB recognition can be found in Note 7 in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2018 projects operating income to decline by approximately $74,000. This is due to projected increases in several expenses. The District added a full-time employee during 2018. This employee will be with the District for a full year during 2019 increasing both wages and benefits over the 2018 amount. The percentage of employee wages that must be contributed to the County Employee Pension System is also scheduled to increase from 21.48% to 24.06% on July 1, 2019, 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, 2018 and 2017

	2018	(Restated) 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 282,266	$ 300,510
Accounts receivable	147,837	155,206
Inventories	29,166	30,618
Prepaids	25,949	24,262
Accrued interest income	3,032	751
Total Current Assets	488,250	511,347
Restricted Assets		
Improvement, repair, and replacement	1,027,447	975,621
Depreciation reserve	193,640	191,723
Bond sinking fund	103,627	102,179
Customer deposits	42,956	41,618
Total Restricted Assets	1,367,670	1,311,141
Capital Assets		
Land, building, transmission system, equipment, and vehicles	13,963,919	13,808,579
Less: accumulated depreciation	(5,249,941)	(5,026,871)
Total Capital Assets, net of depreciation	8,713,978	8,781,708
TOTAL ASSETS	10,569,898	10,604,196
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows related to pensions and OPEB	238,786	245,652
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	10,808,684	10,849,848
LIABILITIES		
Current Liabilities		
Accounts payable	49,262	43,305
Accrued and withheld liabilities	54,332	48,292
Deferred income	-	1,700
Total Current Liabilities	103,594	93,297
Current Liabilities Payable From Restricted Assets		
Revenue bonds and lease obligations - current portion	63,500	58,500
Customer deposits	40,187	38,957
Accrued interest payable	20,207	20,951
Total Current Liabilities Payable From Restricted Assets	123,894	118,408
Long-Term Liabilities		
Bonds	1,354,000	1,417,500
Unamortized premium on debt	11,635	13,905
Net unfunded pension and OPEB liability	1,006,331	939,291
Total Long-Term Liabilities	2,371,966	2,370,696
TOTAL LIABILITIES	2,599,454	2,582,401
DEFERRED INFLOW OF RESOURCES		
Deferred inflows related to pensions and OPEB	101,508	83,726
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	2,700,962	2,666,127
NET POSITION		
Net investment in capital assets	7,284,843	7,291,803
Restricted	268,307	267,947
Unrestricted	554,572	623,971
TOTAL NET POSITION	$ 8,107,722	$ 8,183,721

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, 2018 and 2017

	2018	(Restated) 2017
OPERATING REVENUES		
Water revenue	$ 1,348,936	$ 1,341,089
Other service revenues	15,736	13,411
TOTAL OPERATING REVENUES	1,364,672	1,354,500
OPERATING EXPENSES		
Water purchased	430,167	432,283
Operations, maintenance, and administrative expenses	703,326	638,892
Depreciation	237,960	230,280
TOTAL OPERATING EXPENSES	1,371,453	1,301,455
OPERATING (LOSS) PROFIT	(6,781)	53,045
NON-OPERATING INCOME (EXPENSE)		
Investment income	12,207	7,487
Gain on disposal of assets	1,700	-
Net effect of change in pension expense	(91,688)	(68,917)
Interest on long-term obligations	(47,351)	(49,753)
Amortization of bond premium	2,270	2,270
NET NON-OPERATING EXPENSES	(122,862)	(108,913)
NET LOSS	(129,643)	(55,868)
CAPITAL GRANTS AND CONTRIBUTIONS	53,644	41,800
CHANGE IN NET POSITION	(75,999)	(14,068)
NET POSITION, JANUARY 1	8,183,721	8,393,886
PRIOR PERIOD ADJUSTMENT	-	(196,097)
NET POSITION, DECEMBER 31	$ 8,107,722	$ 8,183,721

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	$ 1,372,041	$ 1,362,223
Paid to suppliers for goods and services	(639,532)	(669,571)
Paid to or on behalf of employees for services	(482,199)	(422,475)
NET CASH PROVIDED BY OPERATING ACTIVITIES	250,310	270,177
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(170,230)	(369,126)
Sale of vehicle	1,700	-
Interest received on investments	9,926	7,383
NET CASH USED BY INVESTING ACTIVITIES	(158,604)	(361,743)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long term debt	(58,500)	(83,500)
Interest paid on long term debt	(48,095)	(50,637)
Contributed capital received	35,944	22,100
Grant proceeds	16,000	18,000
Increase in restricted cash	(56,529)	286,854
(Decrease) increase in customer deposits	1,230	2,229
NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(109,950)	195,046
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,244)	103,480
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	300,510	197,030
CASH AND CASH EQUIVALENTS-END OF YEAR	$ 282,266	$ 300,510
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss) income	$ (6,781)	$ 53,045
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	237,960	230,280
Change in operating assets and liabilities		
Decrease (Increase) in receivables	7,369	7,608
Decrease (Increase) in inventories	1,452	(1,390)
Decrease (Increase) in prepaid assets	(1,687)	(1,415)
Increase (Decrease) in accounts payable	5,957	(25,510)
Increase (Decrease) in other accrued liabilities	6,040	7,559
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 250,310	$ 270,177
SUPPLEMENTAL INFORMATION		
Interest expensed	$ (47,351)	$ (49,753)

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

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.

<u>Regulatory Requirements</u>
The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

<u>Basis of Accounting</u>
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. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments in the United States of America.

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.

<u>Cash Equivalents</u>
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.

<u>Budgets</u>
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.

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 2018 and 2017 these contributions consisted of the following:

Source	2018	2017
Tap in fees and construction costs paid by new customers	$ 37,644	$ 23,800
Total	$ 37,644	$ 23,800

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.

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, 2018 and 2017, the balances were $282,266 and $300,510, 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, 2018:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and Cash Equivalents				
Money market funds	$ 1,088,885	$ 1,001,950	$ 86,935	$ -
Certificate of deposits	561,051	561,051	-	-
Total	$ 1,649,936	$ 1,563,001	$ 86,935	$ -

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

		Fair Value Measurements Using		
	Fair Value	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	$ -

In accordance with GASB 40, the District has $86,935 and $82,086 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2018 and 2017, 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 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,

	2018	2017
Depreciation Reserve Fund	$ 196,309	$ 193,080
Bond Sinking Fund	71,998	74,867
Total Restricted Net Position	$ 268,307	$ 267,947

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, 2017	Additions	Retirements	Balance at December 31, 2018
Land	$ 63,176	$ -	$ -	$ 63,176
Buildings and improvements	335,092	-	-	335,092
Distribution reservoirs and standpipes	997,511	-	-	997,511
Furniture and fixtures	55,024	-	-	55,024
Hydrants	203,747	-	-	203,747
Meter system and installation	603,662	14,633	-	618,295
Other plant and misc. equipment	158,772	-	-	158,772
Pumping equipment	448,724	-	-	448,724
Services	776,601	20,507	-	797,108
Tools and equipment	25,723	-	-	25,723
Transmission mains	9,946,677	109,578	-	10,056,255
Transportation equipment	187,020	24,350	(14,890)	196,480
Construction in progress	6,850	119,946	(118,784)	8,012
Subtotal	13,808,579	289,014	(133,674)	13,963,919
Accumulated depreciation	(5,026,871)	(237,960)	14,890	(5,249,941)
Capital Assets, net	$ 8,781,708	$ 51,054	$ (118,784)	$ 8,713,978

NOTE 5 – LONG TERM DEBT

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

Debt Instrument	Balance at December 31, 2017	Additions	Retirements	Balance at December 31, 2018
Revenue bonds of 2010	$ 201,000	$ -	$ (3,500)	$ 197,500
Kentucky Rural Water Finance Corp.	135,000	-	(20,000)	115,000
Kentucky Rural Water Finance Corp.	1,140,000	-	(35,000)	1,105,000
Subtotal	1,476,000	$ -	$ (58,500)	1,417,500
Less: current portion of long-term debt	(58,500)			(63,500)
Total Long-Term Indebtedness	$ 1,417,500			$ 1,354,000

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
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	3.25%	4,000	5,850	9,850
2024-2028	3.25%	23,500	27,065	50,565
2029-2033	3.25%	27,500	22,937	50,437
2034-2038	3.25%	33,000	18,038	51,038
2039-2043	3.25%	39,500	12,147	51,647
2044-2048	3.25%	46,500	5,191	51,691
2049	3.25%	8,000	130	8,130
Totals		$ 197,500	$ 116,050	$ 313,550

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 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, 2018, $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
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	4.800%	15,000	1,080	16,080
2024	4.800%	15,000	360	15,360
Totals		$ 115,000	$ 14,187	$ 129,187

<u>Kentucky Rural Water Finance Corporation</u>
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
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	3.250%	45,000	30,969	75,969
2024-2028	3.250%	235,000	132,581	367,581
2029-2033	3.25%-3.375%	295,000	89,803	384,803
2034-2038	3.375%-3.500%	300,000	35,797	335,797
2039-2041	3.500%-3.625%	70,000	3,975	73,975
Totals		$ 1,105,000	$ 428,525	$ 1,533,525

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 – EMPLOYEE RETIREMENT SYSTEM

Plan description - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) 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 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/.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on ***Non-Hazardous*** duty and ***Hazardous*** duty covered-employee classifications. The Pendleton County Water District has only Non-Hazardous employees.

PENSION PLAN

Non-Hazardous Pension Plan Description

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years 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 rate	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
	Reduced retirement	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 or 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 75% of the decedent's monthly final rate or pay and any dependent child will receive 50% of the decedent's monthly final rate of pay up to 75% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

	Required Contribution
Tier 1	5%
Tier 2	5%
Tier 3	5%

Contributions

For non-hazardous duty employees, the District contributed 19.18%, of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the period of January 1, 2018 to June 30, 2018. The District contributed 21.48%, of which 16.22% was for the pension fund and 5.26% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the period of July 1, 2018 to December 31, 2018.

The District made all required contributions for the non-hazardous Plan obligation for the fiscal year in the amount of $66,693, of which $50,357 was for the pension fund and $16,336 was for the health insurance fund.

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

At December 31, 2018, the District reported a liability of $779,194 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the District's non-hazardous employer allocation proportion was 0.001279% of the total CERS non-hazardous duty employees. For the year ended December 31, 2018, the District recognized pension expense of $72,243 in addition to its $50,357 pension contribution.

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 25,415	$ (11,406)
Net difference between projected actual earnings on plan investments	36,233	(45,576)
Changes of assumptions	76,150	-
Changes in proportion and differences between contributions and proportionate share of contributions	18,897	(1,406)
Contributions subsequent to the measurement date	27,373	-
	$ 184,068	$ (58,388)

The District's contributions subsequent to the measurement date of $27,373 will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. 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
2019	$ 73,076
2020	37,820
2021	(8,407)
2022	(4,182)
	$ 98,307

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:

Valuation date	June 30, 2016
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05%, 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 (1 year set-back 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 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 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

There have been no changes in actuarial assumptions since June 2017. In June 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was increased from 7.50% to 6.25%.
- The assumed rate of inflation was increased from 3.25% to 2.30%.
- The assumed rate of wage inflation was increased from 4.00% to 3.05%.
- 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 Pensions (Haz & Non-Haz) Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	5.79%
Combined fixed income	24%	6.71%
Real return (diversified inflation strategies)	10%	7.00%
Absolute return (diversified hedge funds)	10%	5.00%
Private equity	10%	6.50%
Real estate	5%	9.00%
Global bonds	4%	3.00%
Cash	2%	1.50%

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 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:

	Proportionate Share of Net Pension Liability		
	1% Decrease 5.25%	Current Rate 6.25%	1% Increase 7.25%
Non-hazardous	$ 980,924	$ 77,194	$ 610,179

<u>HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS</u>

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was $12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was $12.99 per month.

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

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the period January 1, 2018 to June 30, 2018, was 4.70% of covered-employee payroll for non-hazardous duty employees, and for the period July 1, 2018 to December 31, 2018, was 5.26% of the covered employee payroll, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were $16,337 for non-hazardous duty employees for the year ended December 31, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the District reported a liability of $227,137 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 OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At December 31, 2018, the District's proportion of the non-hazardous plan was .001279%.

For the year ended December 31, 2018, the District recognized an OPEB expense of $19,446. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ -	$ (26,470)
Net difference between projected actual earnings on plan investments	-	(15,645)
Changes of assumptions	45,363	(525)
Changes in proportion and differences between contributions and proportionate share of contributions	478	(480)
Contributions subsequent to the measurement date	8,877	-
	$ 54,718	$ (43,120)

The District’s contributions subsequent to the measurement date, $8,877 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	Net Deferral
2019	$ 786
2020	786
2021	786
2022	3,825
2023	(1,995)
Thereafter	(1,467)
	$ 2,721

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, unless otherwise specified:

Actuarial cost method:	Entry Age Normal
Asset valuation method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized

Amortization method:	Level, percent of pay
Amortization period:	25 years, closed
Payroll growth rate:	2.00%
Investment return:	6.25%
Inflation	2.30%
Salary increases:	3.05%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates (Pre-65):	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare trend rates (Post-65):	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study calculated as of June 30, 2015.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are as follows:

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 Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	5.79%
Combined fixed income	24%	6.71%
Real return (diversified inflation strategies)	10%	7.00%
Absolute return (diversified hedge funds)	10%	5.00%
Private equity	10%	6.50%
Real estate	5%	9.00%
Global bonds	4%	3.00%
Cash	2%	1.50%

Changes of Assumptions

In June 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- 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).

In 2018, the following changes were made to the discount rates:

- For the non-hazardous plan, the single discount rate changed from 5.84% to 5.85%

Discount Rate

The discount rate used to measure the total OPEB liability was 5.85% for the non-hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.85% for the non-hazardous plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.85%	5.85%	6.85%
Net OPEB liability, non-hazardous	$ 295,015	$ 227,137	$ 169,318

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate Share of Net OPEB Liability		
Healthcare cost trend rate	1.00% Decrease	Current Rate	1.00% Increase
Net OPEB liability, non-hazardous	$ 169,106	$ 227,137	$ 295,539

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

NOTE 8 – 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 9 – 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 10 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

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

Statement No. 81 – *Irrevocable Split-Interest Agreements* – This statement is not currently applicable to the District.

Statement No. 85 – *Omnibus 2017*

Statement No. 86 – *Certain Debt Extinguishment Issues*

NOTE 11 – FUTURE ACCOUNTING STANDARDS

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

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

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

Statement No. 88 – *Certain Disclosures Related to Debt* – Implementation in FY 2019

Statement No. 89 – *Accounting for Interest Cost* – Implementation in FY 2021

Statement No. 90 – *Majority Equity Interests* – Implementation in FY 2019

NOTE 12 – PRIOR PERIOD ADJUSTMENT

The District has recorded an adjustment to the Beginning Net Position of ($196,097) at December 31, 2018. This adjustment accounts for the estimated net OPEB liability at June 30, 2017 and is being recorded in accordance with Government Accounting Standards Board Statement No. 75.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events through May 24, 2019, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2018 through May 24, 2019 to disclose.

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

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net pension liability	0.012790%	0.012697%	0.01185%	0.012160%						
Proportionate share of the net pension liability (asset)	$ 779,194	$ 743,194	$ 583,507	$ 522,805						
Covered payroll in year of measurement	$ 317,097	$ 309,151	$ 282,712	$ 283,700						
Share of the net pension liability (asset) as a percentage of its covered payroll	245.73%	240.40%	206.40%	184.28%						
Plan fiduciary net position as a percentage of total pension liability	53.54%	55.50%	55.50%	59.97%						

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 50,357	$ 43,127	$ 33,670	$ 36,304	$ 44,559					
Actual contribution	$ 50,357	$ 43,127	$ 33,670	$ 36,304	$ 44,559					
Contribution deficiency (excess)	-	-	-	-	-					
Covered payroll	$ 327,486	$ 311,455	$ 294,768	$ 274,414	$ 317,238					
Contributions as a percentage of covered payroll	15.38%	13.85%	11.42%	13.23%	14.05%					

Notes to Required Supplementary Information
for the Year Ended December 31, 2018

The net pension liability as of December 31, 2018, is based on the June 30, 2018, 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 7 in the Notes to the Financial Statements.

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

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	0.012790%									
Proportionate share of the net OPEB liability (asset)	$ 227,137									
Covered payroll in year of measurement	$ 317,097									
Share of the net pension liability (asset) as a percentage of its covered payroll	71.63%									
Plan fiduciary net position as a percentage of total OPEB liability	57.62%									

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 16,337									
Actual contribution	$ 16,337									
Contribution deficiency (excess)	-									
Covered payroll	$ 327,486	$ 311,455								
Contributions as a percentage of covered payroll	4.99%									

Notes to Required Supplementary Information
for the Year Ended December 31, 2018

The net pension liability as of December 31, 2018, is based on the June 30, 2018, actuarial valuation. The changes to the elements of the OPEB 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

PENDLETON COUNTY WATER DISTRICT
SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES
For the Years Ending December 31, 2018 and 2017

	2018	2017
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	$ 333,558	$ 293,403
Employee pension and benefits	130,681	112,631
Advertising	-	147
Bad debt expense	5,501	5,621
Commissioners' fees	24,000	24,000
Contractual services - accounting	23,540	23,720
Contractual services - other	24,661	28,374
Insurance - general and vehicle	20,374	20,556
Insurance - other	140	310
Insurance - workers' compensation	5,452	5,165
Materials and supplies	47,828	46,145
Miscellaneous	3,471	2,402
Purchased power	18,859	17,498
Regulatory commission	2,697	2,792
Rental of equipment	2,222	2,217
Taxes	27,371	25,257
Transportation	17,070	13,090
Utilities	15,901	15,564
Total Operations, Maintenance and Administrative Expenses	$ 703,326	$ 638,892

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, 2018 and 2017, 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 May 24, 2019.

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.

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

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
May 24, 2019