

TRIMBLE COUNTY WATER DISTRICT #1
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2017 and 2016

**TRIMBLE COUNTY WATER DISTRICT #1
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Trimble County Water District #1
Bedford, Kentucky 40006

Report on the Financial Statements

We have audited the accompanying financial statements of Trimble County Water District #1 as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Trimble County Water District #1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trimble County Water District #1, 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 Schedule of the District's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 23, and the Schedule of District Contributions – County Employees Retirement System on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Trimble County Water District #1's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is 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 June 27, 2018, on our consideration of the Trimble County Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Trimble County Water District #1's 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 Trimble County Water District #1's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

June 27, 2018

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF NET POSITION
December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|--------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 325,433 | \$ 228,077 |
| Accounts Receivable (Net) | 87,731 | 78,443 |
| Other Receivables | 7,630 | 175 |
| Inventory | 33,723 | 67,920 |
| Prepaid Expenses | 13,298 | 12,753 |
| Total Current Assets | <u>\$ 467,815</u> | <u>\$ 387,368</u> |
| Noncurrent Assets: | | |
| Restricted Assets: | | |
| Cash, Including Time Deposits | \$ 368,022 | \$ 302,766 |
| Interest Receivable | 29 | 40 |
| Capital Assets (Net) | 4,455,588 | 3,642,000 |
| Total Noncurrent Assets | <u>\$ 4,823,639</u> | <u>\$3,944,806</u> |
| Total Assets | <u>\$ 5,291,454</u> | <u>\$4,332,174</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Attributable to Employee Pension Plan | <u>\$ 206,091</u> | <u>\$ 241,516</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 9,428 | \$ 12,377 |
| Accounts Payable - Construction | 56,890 | - |
| Accrued Compensated Absences | 11,445 | 4,636 |
| Accrued Salaries, Wages & Benefits | 7,514 | 9,649 |
| Accrued Payroll Taxes/Employee Withholding | 2,391 | 3,856 |
| Utility Tax Payable | 1,617 | 1,391 |
| Sales Tax Payable | 897 | 502 |
| Accrued Interest Payable - Customer Deposits | - | 22 |
| Accrued Interest Payable - Interim Financing | 6,594 | - |
| Accrued Interest Payable - Note Payable | 4,874 | 5,363 |
| Retainage Payable | 21,853 | - |
| Tap Fee Deposits Payable | 1,485 | - |
| Note Payable - Current Portion | 22,476 | 21,601 |
| Current Liabilities Payable from Restricted Assets: | | |
| Revenue Bonds Payable | 18,800 | 18,200 |
| Total Current Liabilities | <u>\$ 166,264</u> | <u>\$ 77,597</u> |
| Noncurrent Liabilities: | | |
| Note Payable | \$ 697,713 | \$ 721,945 |
| Revenue Bonds Payable | 1,091,000 | 1,109,800 |
| Interim Financing Payable | 889,787 | - |
| Net Pension Liability | 448,071 | 354,495 |
| Noncurrent Liabilities Payable from Restricted Assets: | | |
| Customer Deposits Payable | 38,311 | 38,316 |
| Total Noncurrent Liabilities | <u>\$ 3,164,882</u> | <u>\$2,224,556</u> |
| Total Liabilities | <u>\$ 3,331,146</u> | <u>\$2,302,153</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Attributable to Employee Pension Plan | <u>\$ 11,374</u> | <u>\$ -</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | \$ 1,657,069 | \$1,770,454 |
| Restricted for Debt Service | 265,797 | 257,888 |
| Unrestricted | 232,159 | 243,195 |
| Total Net Position | <u>\$ 2,155,025</u> | <u>\$2,271,537</u> |

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|----------------------------|
| Operating Revenues: | | |
| Charges for Services: | | |
| Water Charges (Net of Estimated Bad Debts) | \$ 683,530 | \$ 636,820 |
| Bulk Water Charges | 596 | 216 |
| Sewer Billing Charges | 5,196 | 1,200 |
| Hydrant Rental Charges | 1,008 | 1,548 |
| Total Charges for Services | <u>\$ 690,330</u> | <u>\$ 639,784</u> |
| Other Charges and Miscellaneous: | | |
| Connect, Reconnect and Disconnect Charges | \$ 13,248 | \$ 13,980 |
| Forfeited Discounts | 13,239 | 16,798 |
| Miscellaneous | 2,713 | 9,117 |
| Total Other Charges and Miscellaneous | <u>\$ 29,200</u> | <u>\$ 39,895</u> |
| Total Operating Revenues | <u>\$ 719,530</u> | <u>\$ 679,679</u> |
| Operating Expenses: | | |
| Administrative Salaries | \$ 29,613 | \$ 66,108 |
| Accounting and Collecting Labor | 59,999 | 56,615 |
| Chemicals | 2,360 | 2,875 |
| Commissioner Fees | 18,000 | 18,000 |
| Contractual Service - Sampling | 9,237 | 4,718 |
| Dues | 1,543 | 500 |
| Employee Benefits | 24,843 | 32,389 |
| Insurance | 17,665 | 17,387 |
| Maintenance of Mains | 29,331 | 15,959 |
| Miscellaneous | 4,539 | 6,082 |
| Office Supplies and Expense | 40,191 | 43,764 |
| Operating Labor | 94,814 | 93,146 |
| Other Interest Expense | 205 | 18 |
| Payroll Taxes | 15,404 | 17,303 |
| Professional Services | 18,328 | 16,190 |
| Regulatory Fees | 1,362 | 1,431 |
| Retirement Expense | 170,756 | 137,588 |
| Transportation Expense | 7,358 | 12,954 |
| Utilities | 45,451 | 43,325 |
| Depreciation Expense | 191,880 | 192,140 |
| Total Operating Expenses | <u>\$ 782,879</u> | <u>\$ 778,492</u> |
| Net Operating Income | <u>\$ (63,349)</u> | <u>\$ (98,813)</u> |
| Nonoperating Revenue (Expense): | | |
| Investment Income | \$ 1,321 | \$ 1,394 |
| Interest Expense | (74,065) | (77,717) |
| Gain (Loss) from Sale of Assets | - | 8,223 |
| Total Nonoperating Revenues (Expense) | <u>\$ (72,744)</u> | <u>\$ (68,100)</u> |
| Net Income Before Contributions | <u>\$ (136,093)</u> | <u>\$ (166,913)</u> |
| Capital Contributions | <u>19,581</u> | <u>12,120</u> |
| Net Income | <u>\$ (116,512)</u> | <u>\$ (154,793)</u> |
| Net Position--Beginning of Year | <u>2,271,537</u> | <u>2,426,330</u> |
| Net Position--End of Year | <u><u>\$ 2,155,025</u></u> | <u><u>\$ 2,271,537</u></u> |

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Customers | \$ 703,403 | \$ 684,200 |
| Payments to Suppliers | 1,372 | (12,824) |
| Payments to Employees | (197,752) | (233,527) |
| Other Payments | (220,354) | (233,533) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 286,669</u> | <u>\$ 204,316</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Contributions | \$ 16,200 | \$ 8,691 |
| Sale of Capital Assets | - | 8,223 |
| Purchase of Capital Assets | (918,646) | (72,240) |
| Principal Paid on Capital Debt | (41,557) | (35,707) |
| Interest Paid on Capital Debt | (74,554) | (80,133) |
| Proceeds Interim Financing | 889,787 | - |
| Proceeds Build America Bonds Interest Reimbursement | 3,381 | 3,429 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>\$ (125,389)</u> | <u>\$ (167,737)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investments | \$ (557) | \$ (735) |
| Interest Received | 1,332 | 1,394 |
| Net Cash Provided (Used) by Investing Activities | <u>\$ 775</u> | <u>\$ 659</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 162,055 | \$ 37,238 |
| Balances-Beginning of the Year | 432,678 | 395,440 |
| Balances-End of the Year | <u>\$ 594,733</u> | <u>\$ 432,678</u> |

| | Balances Per December 31, 2017 Statement of Net Position | Balances Per December 31, 2017 Statement of Cash Flows |
|---|---|---|
| Cash | \$ 325,433 | \$ 325,433 |
| Restricted Cash | 269,300 | 269,300 |
| Restricted Time Deposits | 98,722 | - |
| Total Cash and Cash Equivalents, End of Year | <u>\$ 693,455</u> | <u>\$ 594,733</u> |
| | Balances Per December 31, 2016 Statement of Net Position | Balances Per December 31, 2016 Statement of Cash Flows |
| Cash | \$ 228,077 | \$ 228,077 |
| Restricted Cash | 204,601 | 204,601 |
| Restricted Time Deposits | 98,165 | - |
| Total Cash and Cash Equivalents, End of Year | <u>\$ 530,843</u> | <u>\$ 432,678</u> |

(Continued)

**TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2017 and 2016**

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating Income (Loss) | \$ (63,349) | \$ (98,813) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | |
| Cash Flows Reported in Other Categories: | | |
| Depreciation Expense | 191,880 | 192,140 |
| Pension Expense | 140,375 | 103,677 |
| Change in Assets and Liabilities: | | |
| Receivables, Net | (9,288) | (786) |
| Other Receivables | (7,455) | 5,415 |
| Inventories | 34,197 | (1,169) |
| Prepaid Expenses | (545) | (714) |
| Accounts Payable | (2,949) | 5,018 |
| Accrued Expenses | 3,808 | (683) |
| Customer Meter Deposits Payable | <u>(5)</u> | <u>231</u> |
| Net Cash Provided by Operating Activities | <u>\$ 286,669</u> | <u>\$ 204,316</u> |

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2017, Trimble County Water District #1 reported \$56,890 in construction payables and \$21,853 in retainage payable associated with its system improvement project.

At December 31, 2016, Trimble County Water District #1 had no outstanding obligations associated with capital improvements.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of entity: Trimble County Water District #1 is a rural water company serving approximately 1,400 customers in Trimble County, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of the above-mentioned county through its Fiscal Court and began operations in March, 1956.

In evaluating how to define Trimble County Water District #1 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds 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 (expenses, 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.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. 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 plus deferred outflows of resources net of total liabilities and deferred inflows of resources) is segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

Debt Issuance Costs: Debt issuance costs are expensed as incurred.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

| | |
|-----------------------------|-------------|
| - Structures & Improvements | 15-40 years |
| - Distribution System | 33 years |
| - Wells | 33 years |
| - Machinery & Equipment | 5-33 years |

Inventory: Inventories are stated at latest cost.

Compensated absences: See Note 9 for the District's policy on vacation and sick pay.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS.

Deferred Outflows of Resources and Deferred Inflows of Resources:

Deferred outflows of resources and deferred inflows of resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

Income taxes: Trimble County Water District #1 is not subject to income taxes.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues, in the statement of revenues, expenses and changes in fund net position. Tap on fees of \$16,200 and \$8,691 were received by the District for the years ended December 31, 2017 and 2016, respectively. Build America Bond interest reimbursement of \$3,381 and \$3,429 was received by the District during the years ended December 31, 2017 and 2016, respectively.

Net position: Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Trimble County Water District #1 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was established with the original RECD bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the 2009 and 2010 Bond Issues is as follows:

$$\begin{array}{rcl}
 & \text{one sixth (1/6) of the next semiannual interest payment} & \\
 + & \text{one twelfth (1/12) of the next annual principal payment} & \\
 = & \text{monthly transfer} &
 \end{array}$$

Transfers sufficient to meet the annual obligation outstanding on the issues were made timely during the years ended December 31, 2017 and 2016.

Upon the issuance of the original 1992 Rural Development bonds, a Depreciation Account was established to provide funds for extraordinary repairs and extensions to the system and/or make up any deficiency in the Bond and Interest Sinking Account. After monthly deposits are made into the Bond and Interest Account, monthly transfers are required to be made to the Depreciation Account. Subsequent issues ratified the requirements set forth in the 1992 issue. Under it and subsequent issues, the following transfers were established and continue in effect:

Under the original 1992 issue a monthly transfer of \$315 was required until \$37,800 was accumulated in the account. Under the 2009 issue, an additional monthly transfer of \$570 was required until \$68,400 was accumulated in the account. At year end the account was fully funded.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities, including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2017 and 2016, in accordance with the District's policy, \$471,052 and \$414,484 respectively, of the District's deposits were covered by federal depository insurance and \$267,183 and \$69,723 respectively, were collateralized by securities held by the pledging financial institution's agent in the District's name. At December 31, 2017, the District had no deposits that were exposed to custodial credit risk. At December 31, 2016, \$70,579 of the District's deposits were unsecured and uncollateralized.

At December 31, 2017 and 2016, the District's deposits were as follows:

December 31, 2017

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|-------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ 57,359 | \$ 57,359 |
| Time/Savings Deposits | 680,876 | 635,501 |
| Total Deposits | <u>\$ 738,235</u> | <u>\$ 692,860</u> |

December 31, 2016

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|-------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ - | \$ - |
| Time/Savings Deposits | 554,786 | 530,248 |
| Total Deposits | <u>\$ 554,786</u> | <u>\$ 530,248</u> |

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

Reconciliation to Statement of Net Position:

| | December 31, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
| Unrestricted Cash | \$ 325,433 | \$ 228,077 |
| Restricted Cash, Including Time Deposits | 368,022 | 302,766 |
| Less: Cash on Hand | (595) | (595) |
| | <u>\$ 692,860</u> | <u>\$ 530,248</u> |

NOTE 4 – RESTRICTED ASSETS

Restricted assets consist of the following:

| | December 31, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
| Cash, Including Time Deposits | \$ 146,295 | \$ 141,210 |
| Bond and Interest Sinking Account | 119,473 | 116,638 |
| Depreciation Account | 44,895 | 44,918 |
| Customer Deposits | 57,359 | - |
| Construction Account | <u>\$ 368,022</u> | <u>\$ 302,766</u> |
| Total Restricted Cash, Including Time Deposits | | |
| Interest Receivable | <u>\$ 29</u> | <u>\$ 40</u> |

NOTE 5 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Accrued interest is paid annually and when the deposit is refunded.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2017 and 2016, was as follows:

| | Balance at January 1, 2017 | Additions | Disposals | Balance at December 31, 2017 |
|--------------------------------|-------------------------------|---------------------|--------------------|---------------------------------|
| Land & Land Rights | \$ 23,957 | \$ - | \$ - | \$ 23,957 |
| Structures & Improvements | 549,995 | - | - | 549,995 |
| Distribution System | 5,294,856 | 60,022 | - | 5,354,878 |
| Wells | 144,976 | - | - | 144,976 |
| Machinery & Equipment | 1,283,165 | 4,764 | (16,786) | 1,271,143 |
| Construction in Process | 3,200 | 940,682 | - | 943,882 |
| Totals at Historical Cost | <u>\$ 7,300,149</u> | <u>\$ 1,005,468</u> | <u>\$ (16,786)</u> | <u>\$ 8,288,831</u> |
| Less: Accumulated Depreciation | | | | |
| Structures & Improvements | \$ (201,988) | \$ (14,896) | \$ - | \$ (216,884) |
| Distribution System | (2,488,112) | (134,182) | - | (2,622,294) |
| Wells | (84,816) | (3,874) | - | (88,690) |
| Machinery & Equipment | (883,233) | (38,928) | 16,786 | (905,375) |
| Total Accumulated Depreciation | <u>\$ (3,658,149)</u> | <u>\$ (191,880)</u> | <u>\$ 16,786</u> | <u>\$ (3,833,243)</u> |
| Capital Assets, Net | <u>\$ 3,642,000</u> | <u>\$ 813,588</u> | <u>\$ -</u> | <u>\$ 4,455,588</u> |

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 6 – CAPITAL ASSETS (Continued)

| | Balance at January 1, 2016 | Additions | Disposals | Balance at December 31, 2016 |
|--------------------------------|-------------------------------|---------------------|--------------------|---------------------------------|
| Land & Land Rights | \$ 23,957 | \$ - | \$ - | \$ 23,957 |
| Structures & Improvements | 543,325 | 6,670 | - | 549,995 |
| Distribution System | 5,250,776 | 44,080 | - | 5,294,856 |
| Wells | 144,976 | - | - | 144,976 |
| Machinery & Equipment | 1,277,675 | 18,290 | (12,800) | 1,283,165 |
| Construction in Process | - | 3,200 | - | 3,200 |
| Totals at Historical Cost | <u>\$ 7,240,709</u> | <u>\$ 72,240</u> | <u>\$ (12,800)</u> | <u>\$ 7,300,149</u> |
| Less: Accumulated Depreciation | | | | |
| Structures & Improvements | \$ (187,217) | \$ (14,771) | \$ - | \$ (201,988) |
| Distribution System | (2,355,718) | (132,394) | - | (2,488,112) |
| Wells | (80,942) | (3,874) | - | (84,816) |
| Machinery & Equipment | (854,932) | (41,101) | 12,800 | (883,233) |
| Total Accumulated Depreciation | <u>\$ (3,478,809)</u> | <u>\$ (192,140)</u> | <u>\$ 12,800</u> | <u>\$ (3,658,149)</u> |
| Capital Assets, Net | <u>\$ 3,761,900</u> | <u>\$ (119,900)</u> | <u>\$ -</u> | <u>\$ 3,642,000</u> |

Included under the District's Plant Assets at December 31, 2017 and 2016, was \$1,566,427 and \$1,582,043 of fully depreciated assets, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$191,880 and \$192,140 in 2017 and 2016, respectively.

NOTE 7 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$9,173 and \$11,758 at December 31, 2017 and 2016, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2017 and 2016, long-term debt payable consisted of the following:

Bonds Payable:

| | December 31, 2017 | December 31, 2016 |
|--|---------------------|---------------------|
| RECD Revenue Bonds of 2009, original issue amount of \$931,000, secured by water revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is July 1, 2047. | \$ 835,800 | \$ 849,500 |
| RECD Revenue Bonds of 2010 (Build America Bonds – Direct Payment), original issue amount of \$301,000 secured by water revenues. Interest is charged at the rate of 3.75% per annum. Final maturity is July 1, 2048. | 274,000 | 278,500 |
| Total Bonds Payable | <u>\$ 1,109,800</u> | <u>\$ 1,128,000</u> |
| Current Portion | \$ 18,800 | \$ 18,200 |
| Noncurrent Portion | 1,091,000 | 1,109,800 |
| Total Bonds Payable | <u>\$ 1,109,800</u> | <u>\$ 1,128,000</u> |

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 8 – LONG-TERM DEBT (Continued)

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Note Payable: | | |
| The Farmers Bank of Milton fixed rate mortgage agreement dated October 31, 2013. Original issue amount of \$804,000. Interest is charged at the rate of 4.05% per annum, secured by a real estate mortgage on properties at 34 East Morgan Drive, Bedford, Kentucky and 610 Highway 421N, Bedford, Kentucky. Annual payments of \$51,738. Final maturity is October 31, 2038. | | |
| | \$ 720,189 | \$ 743,546 |
| Current Portion | \$ 22,476 | \$ 21,601 |
| Noncurrent Portion | 697,713 | 721,945 |
| Total Note Payable | \$ 720,189 | \$ 743,546 |
| Accrued Compensated Absences: | | |
| All Current | | |
| | \$ 11,445 | \$ 4,636 |

Revenue Bonds of 2009 – RECD

At original issue, \$931,000 of RECD bonds were outstanding at the interest rate of 4.25% per annum with maturity dates ranging from 2010-2047. On December 31, 2017, \$835,800 of bonds were outstanding on this issue. On December 31, 2016, \$849,500 of bonds were outstanding on this issue.

Revenue Bonds of 2010 – Build America Bonds – RECD U.S. Department of Agriculture

On October 21, 2010, Trimble County Water District #1 issued \$301,000 taxable Waterworks Revenue Bonds, Series 2010 with an interest rate of 3.75%. The proceeds were used to finance the water main steam crossing replacement project. The final payment will be due July 1, 2048. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 35% of each interest payment due. The credit will amount to \$94,277 over the life of the issue. On December 31, 2017, \$274,000 of bonds were outstanding on this issue. On December 31, 2016, \$278,500 of bonds were outstanding on this issue.

Note Payable – The Farmers Bank of Milton

On October 31, 2013, Trimble County Water District #1 entered into a note payable agreement with The Farmers Bank of Milton at an interest rate of 4.05% to refinance a portion of its then outstanding debt through an advance refunding of the following RECD revenue bond issues outstanding: Series 1992, \$321,320; Series 1997, \$49,400; and Series 2000, \$477,600. The 1992 Series was originally issued at 5.625%. The 1997 Series and 2000 Series were originally issued at 5.00%. As a result of the advance refunding, the District reduced its total debt service requirements by \$114,068, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$83,797. Final maturity on the note is October 31, 2038.

Interim Financing Payable:

The Farmers Bank of Milton – Interim Financing will be repaid through Rural Development Bonds to be issued January 5, 2018, in the amount of \$1,174,000. Principal payments will begin July 1, 2018. Final maturity of the bonds will be July 1, 2057. The balance of the interim financing note at December 31, 2017 was \$889,787.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt

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

December 31, 2017

| | Balance at January 1, 2017 | Additions | Repayments | Balance at December 31, 2017 | Current Portion |
|------------------------------|-------------------------------|-------------------|------------------|---------------------------------|--------------------|
| Bonds Payable | \$ 1,128,000 | \$ - | \$ 18,200 | \$ 1,109,800 | \$ 18,800 |
| Note Payable | 743,546 | - | 23,357 | 720,189 | 22,476 |
| Interim Financing | - | 889,787 | - | 889,787 | 11,445 |
| Accrued Compensated Absences | 4,636 | 6,809 | - | 11,445 | - |
| Total Long-Term Debt | <u>\$ 1,876,182</u> | <u>\$ 896,596</u> | <u>\$ 41,557</u> | <u>\$ 2,731,221</u> | <u>\$ 52,721</u> |

December 31, 2016

| | Balance at January 1, 2016 | Additions | Repayments | Balance at December 31, 2016 | Current Portion |
|------------------------------|-------------------------------|-------------|------------------|---------------------------------|--------------------|
| Bonds Payable | \$ 1,145,200 | \$ - | \$ 17,200 | \$ 1,128,000 | \$ 18,200 |
| Note Payable | 762,053 | - | 18,507 | 743,546 | 21,601 |
| Accrued Compensated Absences | 4,778 | - | 142 | 4,636 | 4,636 |
| Total Long-Term Debt | <u>\$ 1,912,031</u> | <u>\$ -</u> | <u>\$ 35,849</u> | <u>\$ 1,876,182</u> | <u>\$ 44,437</u> |

The annual requirements for all long-term debt outstanding at December 31, 2017, excluding the construction project interim financing note are as follows:

| Due | Bonds | Bond Interest | Federal Credit Interest Payment | Note Payable | Note Payable Interest | Total Principal & Interest |
|-----------|---------------------|-------------------|---------------------------------------|-------------------|-----------------------------|----------------------------------|
| 2018 | \$ 18,800 | \$ 41,897 | \$ 3,596 | \$ 22,476 | \$ 29,262 | \$ 116,031 |
| 2019 | 19,400 | 41,166 | 3,537 | 23,387 | 28,351 | 115,841 |
| 2020 | 20,500 | 40,411 | 3,478 | 24,334 | 27,404 | 116,127 |
| 2021 | 21,200 | 39,615 | 3,413 | 25,319 | 26,419 | 115,966 |
| 2022 | 22,400 | 38,790 | 3,347 | 26,345 | 25,393 | 116,275 |
| 2023-2027 | 125,300 | 180,262 | 15,633 | 148,619 | 110,071 | 579,885 |
| 2028-2032 | 155,100 | 153,655 | 13,500 | 181,253 | 77,437 | 580,945 |
| 2033-2037 | 190,700 | 120,888 | 10,868 | 221,052 | 37,637 | 581,145 |
| 2038-2042 | 234,400 | 80,533 | 7,620 | 47,404 | 2,014 | 371,971 |
| 2043-2047 | 288,500 | 30,931 | 3,668 | - | - | 323,099 |
| 2048 | 13,500 | 327 | 174 | - | - | 14,001 |
| | <u>\$ 1,109,800</u> | <u>\$ 768,475</u> | <u>\$ 68,834</u> | <u>\$ 720,189</u> | <u>\$ 363,988</u> | <u>\$ 3,031,286</u> |

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all long-term debt outstanding at December 31, 2016, are as follows:

| Due | Bonds | Bond Interest | Federal Credit Interest Payment | Note Payable | Note Payable Interest | Total Principal & Interest |
|-----------|---------------------|-------------------|---------------------------------|-------------------|-----------------------|----------------------------|
| 2017 | \$ 18,200 | \$ 42,602 | \$ 3,655 | \$ 21,601 | \$ 30,136 | \$ 116,194 |
| 2018 | 18,800 | 41,897 | 3,596 | 22,476 | 29,262 | 116,031 |
| 2019 | 19,400 | 41,166 | 3,537 | 23,387 | 28,351 | 115,841 |
| 2020 | 20,500 | 40,411 | 3,478 | 24,334 | 27,404 | 116,127 |
| 2021 | 21,200 | 39,615 | 3,413 | 25,319 | 26,419 | 115,966 |
| 2022-2026 | 120,400 | 184,945 | 16,007 | 142,834 | 115,856 | 580,042 |
| 2027-2031 | 148,800 | 159,438 | 13,966 | 174,198 | 84,492 | 580,894 |
| 2032-2036 | 182,800 | 127,994 | 11,439 | 212,448 | 46,242 | 580,923 |
| 2037-2041 | 225,100 | 89,285 | 8,322 | 96,949 | 5,963 | 425,619 |
| 2042-2046 | 276,900 | 41,696 | 4,528 | - | - | 323,124 |
| 2047-2048 | 75,900 | 2,028 | 548 | - | - | 78,476 |
| | <u>\$ 1,128,000</u> | <u>\$ 811,077</u> | <u>\$ 72,489</u> | <u>\$ 743,546</u> | <u>\$ 394,125</u> | <u>\$ 3,149,237</u> |

NOTE 9 – COMPENSATED ABSENCES

Vacation and sick pay are considered an expense in the year incurred. Vacation leave may be accumulated and carried forward from one calendar year to the next, not to exceed 240 hours. Upon termination, the employee is compensated for any accrued but unused vacation. At December 31, 2017 and 2016, a liability for accrued vacation was recorded in the amount of \$11,445 and \$4,636, respectively.

Vacation days accumulate as follows:

| | |
|------------------------------|-----------|
| After completion of 1 year | 40 hours |
| After completion of 3 years | 80 hours |
| After completion of 10 years | 120 hours |

Full time employees accumulate three (3) sick days per year. Sick leave may not be accumulated indefinitely. The maximum carryover of sick leave from (1) one year to the next shall not exceed (6) six days. Upon termination, no portion of accrued and unused sick leave is payable. The District had an unrecorded sick pay liability to its employees of \$456 and \$1,576 at December 31, 2017 and 2016, respectively. The estimated liabilities include required salary related payments.

NOTE 10 – FUND EQUITY- RESTRICTED NET POSITION

Restricted for Debt Service:

RECD Revenue Bonds of 2009 & 2010

| | 2017 | 2016 |
|-----------------------------------|-------------------|-------------------|
| Cash | \$ 265,768 | \$ 257,848 |
| Add: Accrued Interest Receivable | 29 | 40 |
| Less: Accrued Interest Payable | - | - |
| Total Restricted for Debt Service | <u>\$ 265,797</u> | <u>\$ 257,888</u> |

Unrestricted net position was reduced by \$140,375 and \$103,677 for the years ended December 31, 2017 and 2016, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability. The accounts affected were as follows:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Increase (Decrease) in Deferred Outflows of Resources | \$ (35,425) | \$ 166,484 |
| (Increase) Decrease in Deferred Inflows of Resources | (11,374) | - |
| (Increase) Decrease in Net Pension Liability | (93,576) | (270,161) |
| Net Decrease in Unrestricted Net Position | <u>\$ (140,375)</u> | <u>\$ (103,677)</u> |

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 11 – BAD DEBT EXPENSE

At December 31, 2017 and 2016, water revenue charges have been netted with an estimated bad debt expense of \$1,791 and \$2,612, respectively.

NOTE 12 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2017 and 2016 was \$80,864 and \$77,735, respectively. \$6,594 of interest was capitalized in 2017. No interest expense was capitalized in 2016.

NOTE 13 – WHOLESALE WATER RATES

Trimble County Water District #1 supplies water for resale to the West Carroll Water District. The wholesale rate charged to West Carroll Water District is as follows: \$236.40 minimum for the first 50,000 gallons plus an additional \$4.10 per 1,000 gallons over the first 50,000 gallons. These rates became effective June 1, 2017. There is no minimum purchase amount.

NOTE 14 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. and is also subject to the risks associated with employee injury. Each of these risks is covered through the purchase of insurance through the Kentucky Association of Counties and Commercial Insurers.

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the Commissioners. Electing employees and all new employees of the District may participate in the System.

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The most recent financial report, dated June 30, 2017, may be obtained from <https://kyret.ky.gov/About/Internal-Audit/Documents/2017%20Audited%20Financial%20Statements%20and%20Independent%20Auditor's%20Reports.pdf>. Additionally, the Kentucky Retirement System issues a publically available financial report that includes the Schedules of Employer Allocations and Pension amounts by Employer. The most recent report, dated June 30, 2017 may be obtained from <https://kyret.ky.gov/Employers/GASB/Audited%20Reports/DRAFT%202017%20Pension%20Proportionate%20Share%20Audit%20Report.pdf>. The Kentucky CERS GASB 68 Actuarial Report prepared by Gabriel, Roeder, Smith and Co. (GRS) may be obtained at [https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/GASB68 Actuarial Information CERS FY2017.pdf](https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/GASB68%20Actuarial%20Information%20CERS%20FY2017.pdf).

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Basis of Accounting – CERS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

Method Used to Value Investments – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year.

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

| | | |
|--------|----------------------|--|
| Tier 1 | Participation date | Before September 1, 2008 |
| | Unreduced retirement | 27 years service or 65 years old |
| | Reduced retirement | At least 5 years service and 55 years old |
| 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 |
| | 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 |

Retirement is based on a factor of the number of years' 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 - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2017 and 2016, participating employers contributed 18.68% and 17.06%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2017 and 2016, were 18.68% and 17.06%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

Employer contributions for the year ended June 30, 2017, were allocated 13.95% to CERS's pension fund and 4.73% to CERS's OPEB (health insurance) fund, respectively. Employer contributions for the year ended June 30, 2016, were allocated 11.91% to CERS's pension fund and 5.15% to CERS's OPEB (health insurance) fund, respectively.

For the fiscal years ended June 30, 2017 and 2016, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. These members were classified in

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

the Tier 1 structure of benefits. Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%.

If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, for plan members who began participating on, or after, September 1, 2008, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and an additional 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions

Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2017, the actuarially determined contribution rates effective for fiscal year ending 2017 are calculated as of June 30, 2015. Based on the June 30, 2015 actuarial valuation report (produced by the prior actuary, Cavanaugh Macdonald Consulting, LLC), the actuarial methods and assumptions used to calculate these contribution rates are as follows:

| Item | CERS Non-Hazardous |
|-------------------------|--|
| 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: | 28 Years, Closed |
| Investment Return: | 7.50% |
| Inflation: | 3.25% |
| Salary Increases: | 4.00%, average |
| Mortality: | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) |

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Continued)

In general, the assumptions and methods used in the valuation (as shown above) are based on the actuarial experience study for the five-year period ending June 30, 2013, submitted April 30, 2014, and adopted by the Board on December 4, 2014. The investment return, price inflation, and payroll growth assumption were adopted by the Board in May and July 2017 for use with the June 30, 2017 valuation in order to reflect future economic expectations.

These changes in assumptions since the prior valuation are as follows:

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

There were no changes in benefit terms during the years ended June 30, 2017 and 2016.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

- **Shorter-Term (5 years and less):** The returns of the particular asset classes of the managed funds of the Systems, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.
- **Medium-Term (5 to 30 years):** The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- **Longer-Term:** The total assets of the Systems should achieve a return of 6.25% for CERS pension and insurance plans. This is measured over 30 to 40 years which exceeds the actuarially required rate of return while also exceeding the return achieved by its total fund benchmark.

Asset Allocation Board Policy as of June 30, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|-----------------------|---------|---------|
| Combined Equity | 50.80% | 44.00% |
| Combined Fixed Income | 14.00% | 19.00% |
| Private Equity | 10.00% | 10.00% |
| Absolute Return | 10.00% | 10.00% |
| Real Return | 8.00% | 10.00% |
| Real Estate | 5.00% | 5.00% |
| Cash | 2.20% | 2.00% |
| | 100.00% | 100.00% |

Total fund return for the years ended June 30, 2017 and 2016 were 13.47% and (0.52%), respectively.

The total pension liability is based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. Gabriel, Roeder, Smith & Co (GRS) did not conduct the June 30, 2016, actuarial valuation; however, GRS did replicate the prior actuary's valuations results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of their replication. Information disclosed for years prior to June 30, 2017, was prepared by KRS's prior actuary, Cavanaugh Macdonald Consulting, LLC.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Continued)

For the year ended June 30, 2016 the actuarial valuation date upon which the total pension liability was based was June 30, 2015. An expected total pension liability was determined as of June 30, 2016, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, then applies the expected investment rate of return for the year. No update procedures were used to determine the total pension liability as of June 30, 2015.

Mortality Assumption:

Pre-retirement mortality: RP-2000 Combined Mortality Table projected with Scale BB to 2013. Male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%.

Post-retirement mortality (non-disabled) : RP-2000 Combined Mortality Table projected with Scale BB to 2013. Female mortality rates are set back one year.

Post-retirement mortality (disabled): RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013. Male mortality rates are set back four years.

These mortality assumptions assume a margin for future mortality improvement.

The single discount rate of 6.25% was used to measure the total pension liability for the fiscal year ending June 30, 2017. This single discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the participating employers in the System contribute the actuarially determined contribution rate in all future years. The discount rate of 7.50% was used for the year ended June 30, 2016. The discount rate determination does not use a municipal bond rate.

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

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2017 and 2016], calculated using the discount rates of 6.25% and 7.5% for the years ended June 30, 2017 and 2016, respectively, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2017 | 1% Decrease [5.25%] | Current Discount [6.25%] | 1% Increase [7.25%] |
|--------------------------------|------------------------|-----------------------------|------------------------|
| Net Pension Liability | \$ 7,382,285,860 | \$ 5,853,307,443 | \$ 4,574,328,530 |
| District's Proportionate Share | 565,114 | 448,071 | 350,165 |
| | | | |
| As of June 30, 2016 | 1% Decrease [6.5%] | Current Discount [7.5%] | 1% Increase [8.5%] |
| Net Pension Liability | \$ 6,135,625,606 | \$ 4,923,618,237 | \$ 3,884,686,628 |
| District's Proportionate Share | 441,758 | 354,495 | 279,693 |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension

At December 31, 2017, and 2016 the District reported a liability of \$448,071 and \$354,495 respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2017, and 2016 and was based on the actual liability of the employees and former employees relative to the total

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

liability of the system as determined by an actuarial valuation as of those dates. 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 employers, actuarially determined. At June 30, 2017, and 2016 the District's proportion was 0.007655 percent and 0.007200 percent, respectively, which is an increase of 0.000455 percent and an increase of 0.00524 percent for the years ended June 30, 2017 and June 30, 2016, respectively.

The District's total payroll for the fiscal year ended December 31, 2017 was \$203,097. Contributions to CERS were based on \$151,368 (covered payroll). The total employer contributions for the year ended December 31, 2017 were \$28,562.

The District's total payroll for the fiscal year ended December 31, 2016, was \$236,396. Contributions to CERS were based on \$178,144 (covered payroll). The total employer pension contributions for the year ended December 31, 2016, were \$31,870.

All contributions were made as required during these years.

The District's contribution to the County Employees' Retirement System's year(s) ended June 30, 2017, and 2016 was 0.007655 percent and 0.007200 percent, respectively, of the System's total contribution requirements for all employers.

For the years ended December 31, 2017, and 2016, the District recognized pension expense of \$170,756 and \$137,588, respectively. At December 31, 2017 and 2016 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

| | December 31, 2017 | | December 31, 2016 | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference Between Expected and Actual Experience | \$ 556 | \$ 11,374 | \$ 1,548 | \$ - |
| Change in Assumptions | 82,681 | - | 18,779 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 106,325 | - | 170,810 | - |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 5,542 | - | 33,326 | - |
| District Contributions Made Subsequent to the NPL Measurement Date | 10,987 | - | 17,053 | - |
| Total | <u>\$ 206,091</u> | <u>\$ 11,374</u> | <u>\$ 241,516</u> | <u>\$ -</u> |

\$10,987 and \$17,053 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2017 and 2016. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to the County Employee Retirement System Pension (Continued)*

share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

| | | Increase (Decrease) to Pension Expense |
|-------------------------------|------|--|
| Year Ended December 31, 2017: | | |
| | 2018 | \$ 108,341 |
| | 2019 | 63,328 |
| | 2020 | 17,814 |
| | 2021 | (5,753) |
| | | <u>\$ 183,730</u> |
| Year Ended December 31, 2016: | | |
| | 2017 | \$ 100,242 |
| | 2018 | 83,772 |
| | 2019 | 32,260 |
| | 2020 | 8,189 |
| | | <u>\$ 224,463</u> |

Payable to the Pension Plan

At December 31, 2017 and 2016, the District reported a payable of \$2,391 and \$3,689, respectively for the outstanding amount of contributions required for the years then ended. These amounts represent the employee withholding and employer match for the last month of the years then ended. The payable includes both pension and insurance contributions.

Governmental 401(a) Plan

For those employees choosing to reject participation in the Kentucky Retirement System (CERS), the District has adopted a 401(a) program with Nationwide Financial Services, Inc. Under the plan, the District will contribute five percent (5%) of the participant's eligible compensation. Employees may contribute up to Internal Revenue Service statutory limits per year. Employees are vested immediately in their account including employer contributions. 2017 and 2016 contributions to the 401(a) plan were based on \$26,958 and \$39,512 (eligible gross wages), respectively. The District contributed \$1,348 and \$1,972 to the plan during the years ending December 31, 2017 and 2016, respectively.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

At December 31, 2017, the District's system improvement project was approximately 82% complete with remaining costs of approximately \$210,000. Final payments were issued in May 2018.

As indicated in Note 8, Rural Development Bonds were issued on January 5, 2018 in the amount of \$1,174,000. Interest will be charged at the rate of 2.375%. Principal payments will begin July 1, 2018. The final principal payment will be due July 1, 2057.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 17 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal years beginning after June 15, 2017 [District year beginning January 1, 2018]. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The District is evaluating the requirements of this statement.

Reporting requirements in regards to OPEB became effective for the Kentucky Retirement System for its year ended June 30, 2017. In its financial report including schedules of employer allocations, a net OPEB liability of \$153,892 was reported as attributable to the Trimble County Water District #1.

TRIMBLE COUNTY WATER DISTRICT #1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
County Employees Retirement System

Fiscal Years Ended

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|
| District's proportion of the net pension liability (asset) | 0.007655% | 0.007200% | 0.001961% |
| District's proportionate share of the net pension liability (asset) | \$ 448,071 | \$ 354,495 | \$ 84,334 |
| District's covered-employee payroll | \$ 151,368 | \$ 178,144 | \$ 130,666 |
| District's proportionate share of the net pension liability (asset) as a percentage of its of its covered-employee payroll | 296.01% | 198.99% | 64.54% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.3% | 55.5% | 59.97% |

*Calculations based on Fiscal Years ended June 30, 2015 through 2017, County Employees Retirement Systems' Schedules of Employer Allocations and Pension Amounts by Employer. District payroll is reported for its' covered calendar years then ended. The District began participation effective April 1, 2015.

GASB 68 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

There were no changes of benefit terms. However, the investment return, price inflation and payroll growth assumptions were adopted by the Board of Trustees in May and July, 2017 for use with the June 30, 2017 valuation.

- The assumed investment rate of return was decreased from 7.5% to 6.25%
- The assumed rate of inflation was reduced from 3.25% to 2.30%
- Payroll growth assumption was reduced from 4% to 2.0%
- 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 one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF DISTRICT CONTRIBUTIONS

County Employees Retirement System

Fiscal Years Ended

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|--------------------|--------------------|--------------------|
| Contractually required contributions | \$ 28,562 | \$ 31,870 | \$ 22,571 |
| Contributions in relation to the contractually required contributions | 28,562 | 31,870 | 22,571 |
| Contribution deficiency (excess) | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| District's covered-employee payroll | \$ 151,368 | \$ 178,144 | \$ 130,666 |
| Contributions as a percentage of covered-employee payroll | 18.87% | 17.89% | 17.27% |

The District began participation April 1, 2015. GASB 68 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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Dennis S. Raisor, CPA
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Susan A. Dukes, CPA

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 Commissioners of the
Trimble County Water District #1
Bedford, KY 40006

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 Trimble County Water District #1 as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Trimble County Water District #1's basic financial statements and have issued our report thereon dated June 27, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Trimble County Water District #1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Trimble County Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Trimble County Water District #1's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Trimble County Water District #1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Item 2017-003.

TRIMBLE COUNTY WATER DISTRICT #1'S RESPONSE TO FINDINGS

Trimble County Water District #1's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Trimble County Water District #1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

June 27, 2018

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Commissioners of the
Trimble County Water District #1
Bedford, Kentucky 40006

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Trimble County Water District #1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Trimble County Water District #1's major federal programs for the year ended December 31, 2017. Trimble County Water District #1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Trimble County Water District #1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Trimble County Water District #1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Trimble County Water District #1's compliance.

Opinion on Each Major Federal Program

In our opinion, Trimble County Water District #1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Item 2017-004. Our opinion on each major federal program is not modified with respect to this matter.

Trimble County Water District #1's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Trimble County Water District #1's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Trimble County Water District #1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Trimble County Water District #1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Trimble County Water District #1's internal control over compliance.

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

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

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

June 27, 2018

TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

| <u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---------------------------------|
| <u>United States Department of Agriculture</u> | | |
| Rural Development | | |
| Direct Program | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | \$ 917,765 |
| Total United States Department of Agriculture | | \$ 917,765 |
| Total Expenditures of Federal Awards | | \$ 917,765 |

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Trimble County Water District #1 under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Trimble County Water District #1, it is not intended to and does not present the financial position, changes in net position, or cash flows of Trimble County Water District #1.

Note B: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C: Non Cash Awards

The Trimble County Water District #1 did not receive any other federal awards in the form of non-cash assistance, insurance contracts, or loan guarantees for the year ended December 31, 2017.

Note D: Bonds Payable

At December 31, 2017, Trimble County Water District #1 had loans outstanding and payable to the USDA Rural Development in the amount of \$1,109,800. These loans impose no continuing compliance requirements other than to repay the loans.

The above expenditures have been financed through a bridge loan which will be repaid with permanent financing in January, 2018 provided through the issuance of additional Rural Development Bonds.

Note E: Passed Through to Sub-Recipients

There were no awards passed through to sub-recipients.

Note F: Indirect Cost Rate

Trimble County Water District #1 has not included indirect costs in the schedule.

**TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2017**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Trimble County Water District #1 were prepared in accordance with GAAP.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the 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*. Items 2017-001 and 2017-002 were reported as material weaknesses.
3. One instance of noncompliance material to the financial statements of Trimble County Water District #1, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit (Item 2017-003).
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Trimble County Water District #1 expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this Schedule (Item 2017-004).
7. The program tested as a major program was:

United States Department of Agriculture:
Water and Waste Disposal Systems
for Rural Communities

CFDA No.

10.760

8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. Trimble County Water District #1 did not qualify as a low risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2017-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative functions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2016 as Item 2016-001.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

**TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
December 31, 2017**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2017-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES (Continued)

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes.

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel. However, additional efforts will be made to enhance operational control processes.

**2017-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED
NOTE DISCLOSURES**

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2016 as 2016-002.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor's assistance to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
December 31, 2017

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

2017-003 VIOLATION OF KRS 424.260

CONDITION:

The Trimble County Water District #1 did not advertise for bids on certain materials, supplies, equipment, or services.

CRITERIA:

KRS 424.260 requires districts to implement procedures to ascertain that any qualified purchase greater than \$20,000 is properly bid.

CAUSE:

Procedures were not followed regarding Kentucky Revised Statutes.

EFFECT:

Goods and services may not be purchased at the most competitive price. The purchase of a generator at a cost of \$20,785 plus \$5,995 installation was identified as an item to be included in the system improvement project after the project's [two] main contracts were put out for bid.

RECOMMENDATION:

The District's management should review purchases for any bid requirements.

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

Procedures were in place to ensure bidding for the project. The need to bid this item separately was overlooked.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

SIGNIFICANT DEFICIENCIES

NONE

**TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
December 31, 2017**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (Continued)

COMPLIANCE

2017-004 VIOLATION OF KRS 424.260

U.S. Department of Agriculture: Direct Program, Water and Water Disposal Systems for Rural Communities CFDA #10.760; loan/approval dated December 21, 2016.

CONDITION:

The Trimble County Water District #1 did not advertise for bids on certain materials, supplies, equipment, or services.

CRITERIA:

KRS 424.260 requires districts to implement procedures to ascertain that any qualified purchase greater than \$20,000 is properly bid.

CAUSE :

Bid procedures were not followed in procuring a generator costing greater than \$20,000. As required under Kentucky Revised Statutes Federal funds were expended for the purchase.

EFFECT:

Goods and services may not be purchased at the most competitive price. The purchase of a generator at a cost of \$20,785 plus \$5,995 installation was identified as an item to be included in the system improvement project after the project's [two] main contracts were put out for bid.

RECOMMENDATION:

The District's management should review purchases for any bid requirements.

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

Procedures were in place to ensure bidding for the project. The need to bid this item separately was overlooked.

**TRIMBLE COUNTY WATER DISTRICT #1
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2017**

Finding 2016-001: Size of Entity, Cross-Training, Checking Procedures and Documentation

Condition: This finding was a material weakness stating that due to the size of the entity, cross-training and checking procedures were not in place for certain administrative functions. This lack of checking procedures could affect the District's ability to timely record, process, summarize and report financial data.

Recommendation: It was recommended that procedures be implemented to ensure cross training and checking procedures are in place to allow proper wording of transactions.

Current Status: Management continues to implement checking and review procedures.

Finding 2016-002: Failure to Prepare a Complete Set of Financial Statements Including Required Note Disclosures

Condition: This finding was a material weakness indicating that the District's financial statements, including the required note disclosures, are prepared as part of the annual audit.

Recommendation: District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

Current Status: As indicated in Finding 2016-002, the District continues to outsource this service as a result of management's cost benefit decision.

Finding 2016-003: Violation of KRS 91A.060 and KRS 66.480

Condition: The District failed to adequately ensure and fully collateralize its deposits as required by Kentucky Revised Statutes.

Recommendation: Procedures should be implemented to verify that adequate collateral has been pledged to cover all deposits.

Current Status: Deposits were fully collateralized at December 31, 2017.

TRIMBLE COUNTY WATER DISTRICT NO. 1

POST OFFICE BOX 63
BEDFORD, KENTUCKY 40006

June 27, 2018

U.S. Department of Agriculture

Trimble County Water District #1 respectively submits the following corrective action plan for the year ended December 31, 2017.

Name and Address of the independent public accounting firm: Raisor, Zapp & Woods, PSC, 513 Highland Avenue, P.O. Box 354, Carrollton, Kentucky 41008.

Audit Period: As of and for the year ended December 31, 2017

The findings from the December 31, 2017, schedule of findings and questioned costs are discussed below. The findings are number consistently with the numbers assigned in the schedule.

FINDINGS-FINANCIAL STATEMENT AUDIT

Material Weakness 2017-001 - Size of Entity, Cross-training and Checking Procedures

- In response to this item, the District will do its best to address this issue through enhanced management oversight and checking procedures. We believe that we have an office staff commensurate with the size and needs of the District. The District Manager left for another job opportunity during this project, and the District reassigned his duties to existing staff on an interim basis with the three Commissioners assuming more managerial responsibilities in the interim. Financial considerations have been taken into consideration in meeting those needs. We will continue to cross train office staff members to protect the District from unforeseen circumstances.

Material Weakness 2017-002 - Failure to Prepare a Complete Set of Financial Statements, including the Required Note Disclosures

- In response to this item, the District's decision to outsource to Raisor, Zapp & Woods, PSC, Accountants, the preparation of the complete set of financial statements and required note disclosure is a cost-benefit decision. The District is aware of its role in oversight of this process and is conscientious in its efforts to review the reporting package. It is anticipated that the District will continue to outsource this procedure.

Compliance Findings 2017-003 - Violation of KRS 424.260

- For the finding that the District failed to comply with KRS 424.260 to both the financial statement audit and the federal award, we would like to offer additional information that bears on the matter.

First, the District bid out two (2) construction project for system improvements as authorized by USDA competitively with the assistance of its engineer, Kentucky Engineering. During the construction project, an emergency developed at the Bray's booster station which required a new generator to be installed or all of the customers served by the District in Trimble County would lose their water supply and service. Kentucky Engineering, in consultation with Greg Pridemore, the USDA Specialist assigned to this project, recommended that a generator be purchased to avoid this calamity. The District called suppliers for the generator and received a bid of \$20,786.00 for the equipment, with a cost of \$5,995.00 for installation of the generator. The project engineer told the District that this was a more than reasonable cost and recommended its purchase. Mr. Pridemore approved the purchase of the generator and its installation, and authorized the funds for its purchase to be paid from the construction project funds. While the District understands the State law requiring bidding, it considered the matter an emergency and proceeded to have the generator purchased and installed.

Second, the District is aware of its responsibility to comply with the State's bidding law. We believe we have adequate procedures in place to identify purchases that are subject to that process. In the situation referred to, the District had gone through a competitive bidding process and awarded two contracts. The District will try to enhance its awareness of following the bid law in all future instances.

FINDINGS - FEDERAL AWARD PROGRAMS AUDITS

Compliance Finding 2017-004 - Violation of KRS 424.260

- For the finding that the District failed to comply with KRS 424.260 to both the financial statement audit and the federal award, we would like to offer additional information that bears on the matter.

First, the District bid out two (2) construction project for system improvements as authorized by USDA competitively with the assistance of its engineer, Kentucky Engineering. During the construction project, an emergency developed at the Bray's booster station which required a new generator to be installed or all of the customers served by the District in Trimble County would lose their water supply and service.

U.S. Department of Agriculture
June 27, 2018
Page Three

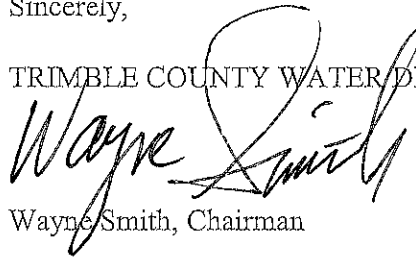
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Second, the District is aware of its responsibility to comply with the State's bidding law. We believe we have adequate procedures in place to identify purchases that are subject to that process. In the situation referred to, the District had gone through a competitive bidding process and awarded two contracts. The District will try to enhance its awareness of following the bid law in all future instances.

If the U.S. Department of Agriculture has questions regarding this plan, please call Wayne Smith at (502) 255-7388.

Sincerely,

TRIMBLE COUNTY WATER DISTRICT #1

A handwritten signature in black ink, appearing to read "Wayne Smith", is written over the printed name.

Wayne Smith, Chairman