

West Shelby Water District
Financial Statements
Years Ended December 31, 2018 and 2017

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West Shelby Water District

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Years Ended December 31, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors
West Shelby Water District

Report on the Financial Statement

We have audited the accompanying financial statements of the business-type activities of West Shelby Water District (the "District"), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Kentucky
Indiana
Ohio

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note H to the financial statements, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation resulted in a restatement of the prior year net position (See Note M). Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the Schedule of Net Pension Liability and Related Ratios Based on Participation in the County Employees' Retirement System of KRS, the Schedule of Contributions Based on Participation in the County Employees' Retirement System of the KRS, the Schedule of Net OPEB Liability and Related Ratios Based on Participation in the County Employees' Retirement System Insurance Fund of KRS, and the Schedule of Contributions Based on Participation in the County Employees' Retirement System Insurance Fund of KRS on pages 31 through 34 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues, Expenses, and Changes in Net Position - Actual to Budget on pages 35 and 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements, as a whole.

Independent Auditor's Report (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

McMCPA & Advisors LLP

Lexington, Kentucky
May 20, 2019

West Shelby Water District
Management's Discussion and Analysis (*Unaudited*)
Years Ended December 31, 2018 and 2017

As management of the West Shelby Water District ("District"), we offer the readers of the District's financial statements this narrative overview and analysis of the financial performance of the District for the year ended December 31, 2018. We encourage readers to read it in conjunction with the District's financial statements and the accompanying notes.

Financial Highlights

- Cash and cash equivalents decreased \$411,380 (24%)
- Restricted cash increased \$58,215 (11%)
- Accounts receivable increased \$1,152 (1%)
- Inventory decreased \$3,406 (3%)
- Property, plant and equipment (net) increased \$555,674 (6%)
- Accounts payable increased \$18,315 (83%)
- Accrued interest decreased \$425 (3%)
- Bonds/notes payable decreased \$52,000 (6%)
- Net position decreased \$160,702 (1%)
- Total revenues increased \$104,805 (7%)
- Total expenses increased \$202,828 (11%)
- Operating loss increased \$98,023 (35%)
- Non-operating revenues (net) increased \$220,097 (193%)

Overview of the Financial Statements

This financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the accompanying notes to the financial statements. The District is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the District. These statements are presented in a manner similar to those of a private business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent calendar year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows provides relevant information about the cash receipts and cash payments of the District during the fiscal year. The statement should help users assess the District's ability to generate future net cash flows, meet future obligations as they become due, and assess the District's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and non-cash investing, capital, non-capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 14 - 29.

West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
Years Ended December 31, 2018 and 2017

Financial Analysis of the District

Condensed Financial Information
Statements of Net Position
As of December 31, 2018 and 2017

	2018	Percentage Increase (Decrease)	2017 (Restated)
Current Assets	\$ 1,568,426	-20.78%	\$ 1,979,738
Non-current Assets	<u>10,827,007</u>	2.47%	<u>10,565,897</u>
Total Assets	12,395,433	-1.20%	12,545,635
Deferred Outflows of Resources	<u>214,101</u>	15.65%	<u>185,127</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 12,609,534</u>		<u>\$ 12,730,762</u>
Current Liabilities	\$ 257,102	-1.53%	\$ 261,108
Non-current Liabilities	<u>1,486,139</u>	2.15%	<u>1,454,877</u>
Total Liabilities	1,743,241	1.59%	1,715,985
Deferred Inflows of Resources	<u>70,867</u>	20.83%	<u>58,649</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 1,814,108</u>		<u>\$ 1,774,634</u>
Restricted	535,758	12.19%	477,543
Net Investment in Capital Assets	9,052,564	7.23%	8,441,909
Unrestricted	<u>1,207,104</u>	-40.73%	<u>2,036,676</u>
Total Net Position	<u>\$ 10,795,426</u>	-1.47%	<u>\$ 10,956,128</u>

Current assets consist primarily of operating cash, cash equivalents, short term certificate of deposits, accounts receivables and inventory.

Non-current assets consist primarily of long term certificate of deposits, long term bonds, property, plant and equipment and cash balances restricted for capital construction and debt service.

Current liabilities consist primarily of accounts payable, customer deposits, accrued payroll liabilities and the current-portion of notes payables.

Non-current liabilities represent the non-current portion of bond and notes payables, net, net pension liability and net other postemployment benefits liability.

West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
Years Ended December 31, 2018 and 2017

Financial Analysis of the District (Continued)

Condensed Financial Information
Statements of Revenues, Expenses and Change in Net Position
For the Fiscal Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>Percentage Increase (Decrease)</u>	<u>2017 (Restated)</u>
Operating Revenues			
Sale of water	\$ 1,608,611	6.34%	\$ 1,512,775
Other revenues	<u>40,234</u>	28.69%	<u>31,265</u>
Total Operating Revenues	1,648,845	6.79%	1,544,040
Operating Expenses			
Operating	1,018,718	11.70%	911,980
Administrative and general	461,948	24.63%	370,649
Depreciation	<u>543,663</u>	0.89%	<u>538,872</u>
Total Operating Expenses	<u>2,024,329</u>	11.14%	<u>1,821,501</u>
Loss from Operations	(375,484)	-35.33%	(277,461)
Non-operating Revenues (Expenses)			
Net increase in fair value of investments	1,552	934.67%	150
Investment income	23,447	7.56%	21,798
Gain (Loss) on sale of assets	118,652	-221.82%	(97,403)
Interest expense	<u>(37,772)</u>	-2.56%	<u>(38,763)</u>
Non-operating Expenses, net	<u>105,879</u>	-192.70%	<u>(114,218)</u>
Expenses Over Revenues	(269,605)	31.17%	(391,679)
Changes in Equity Contribution			
Member tap on	42,553	-9.80%	47,176
Member construction contribution	<u>66,350</u>	189.78%	<u>22,897</u>
Total	<u>108,903</u>	55.41%	<u>70,073</u>
Change in Net Position	(160,702)	-50.03%	(321,606)
Net Position, Beginning of Year	10,956,128	-3.91%	11,402,314
Restatement for Accounting Principle	<u>-</u>		<u>(124,580)</u>
Net Position, End of Year	<u>\$ 10,795,426</u>	-1.47%	<u>\$ 10,956,128</u>

West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
Years Ended December 31, 2018 and 2017

Financial Analysis of the District (Continued)

Sale of Water represents revenues from providing water to residential, commercial, industrial, governmental, and multi-family customers.

Other income represents revenues for reconnect fees, forfeited discounts (late fees), and interest earned.

Operating expenses primarily represent the purchasing of water, personnel costs for maintenance staff, utilities, and repairs and maintenance.

Administrative and general expenses primarily represent personnel costs for administrative staff, employee benefits, insurance, supplies and payroll taxes.

Depreciation expense is related to the allocation of the usefulness of property, plant and equipment over the life time of the asset.

Non-operating revenues (expenses) consist primarily of investment income, interest expense, and gain (loss) on sale of property, plant and equipment.

Condensed Financial Information

Statements of Cash Flows

For the Fiscal Years Ended December 31, 2018 and 2017

	<u>2018</u>	Percentage Increase (Decrease)	<u>2017</u>
Net Cash Provided By (Used In):			
Operating activities	\$ 234,017	-28.21%	\$ 325,990
Capital and related financing activities	(963,408)	-373.54%	(203,449)
Investing activities	<u>318,011</u>	453.78%	<u>57,425</u>
Net Change in Cash and Cash Equivalents	(411,380)	328.59%	179,966
Cash and Cash Equivalents, Beginning of Year	<u>1,749,811</u>	11.46%	<u>1,569,845</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,338,431</u></u>	-23.51%	<u><u>\$ 1,749,811</u></u>

The net decrease in cash and cash equivalents totaled \$411,380 at December 31, 2018, primarily due to more capital asset additions in 2018.

West Shelby Water District
Management's Discussion and Analysis (*Unaudited*) (Continued)
Years Ended December 31, 2018 and 2017

Capital Assets Administration

The following table summarizes the changes in net capital assets between fiscal years 2018 and 2017.

	<u>2018</u>	<u>Percentage Increase</u>	<u>2017</u>
Transmission and distribution plant	\$ 14,539,116	3.20%	\$ 14,088,471
General plant	1,295,733	66.54%	778,015
Accumulated depreciation	<u>(5,950,752)</u>	7.45%	<u>(5,538,063)</u>
	<u>\$ 9,884,097</u>	5.96%	<u>\$ 9,328,423</u>

Debt Administration

The following table summarizes the outstanding obligations under bonds payable as December 31, 2018 and 2017.

	<u>2018</u>	<u>Percentage (Decrease)</u>	<u>2017</u>
Bonds and Note payable	<u>\$ 815,000</u>	-6.00%	<u>\$ 867,000</u>

Implementation of New Accounting Standard

Beginning net position for fiscal year 2018 was restated to implement GASB Statement No. 75, *Accounting and Financial Reporting for OPEB* - an amendment of GASB Statement No. 45 related to the retiree health insurance plan. Beginning net position was reduced \$124,580 to reflect the impact of recording the net other employee benefits liability.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all of those with an interest. If you have any questions concerning the information provided in this report or need additional financial information, contact the West Shelby Water District, 137 Citizen's Blvd, Simpsonville, Kentucky 40067.

West Shelby Water District
Statements of Net Position
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,338,431	\$ 1,749,811
Accounts receivable	119,400	118,248
Inventory - materials and supplies	94,303	97,709
Prepaid expenses and other	16,292	13,970
Total Current Assets	<u>1,568,426</u>	<u>1,979,738</u>
Non-current Assets		
Restricted cash and cash equivalents	574,964	516,749
Long term investments	367,946	720,725
Property, plant and equipment, net of accumulated depreciation	9,884,097	9,328,423
Total Non-current Assets	<u>10,827,007</u>	<u>10,565,897</u>
Total Assets	<u>12,395,433</u>	<u>12,545,635</u>
Deferred Outflows of Resources		
Deferred outflow - OPEB	56,288	42,319
Deferred outflow - pension	157,813	142,808
Total Deferred Outflows of Resources	<u>214,101</u>	<u>185,127</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 12,609,534</u>	<u>\$ 12,730,762</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 40,329	\$ 22,014
Accrued interest	15,875	16,300
Customer deposits	92,002	109,376
Accrued taxes and payroll liabilities	16,690	22,212
Horizon Group escrow	39,206	39,206
Bonds payable, current portion	53,000	52,000
Total Current Liabilities	<u>257,102</u>	<u>261,108</u>
Non-current Liabilities		
Bonds payable, long-term portion	762,000	815,000
Premium on bonds payable	16,533	19,514
Net OPEB liability	159,722	158,596
Net pension liability	547,884	461,767
Total Non-current Liabilities	<u>1,486,139</u>	<u>1,454,877</u>
Total Liabilities	<u>1,743,241</u>	<u>1,715,985</u>
Deferred Inflows of Resources		
Deferred inflows - OPEB	30,283	8,303
Deferred inflows - pension	40,584	50,346
Total Deferred Inflows of Resources	<u>70,867</u>	<u>58,649</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,814,108</u>	<u>1,774,634</u>
Net Position		
Restricted for capital construction and debt payments	535,758	477,543
Net investment in capital assets	9,052,564	8,441,909
Unrestricted net position	1,207,104	2,036,676
Total Net Position	<u>10,795,426</u>	<u>10,956,128</u>
Total Liabilities and Net Position	<u>\$ 12,609,534</u>	<u>\$ 12,730,762</u>

See accompanying notes.

West Shelby Water District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(Restated)</u>
Revenue from Sale of Water		
Residential customers	\$ 789,491	\$ 749,287
Industrial customers	408,639	379,522
Commercial customers	204,151	201,462
Public authorities	57,914	61,111
Private fire protection	76,346	71,495
Multi-family dwellings	68,473	46,754
Tax-exempt non-government	3,597	3,144
Total Revenue from Sale of Water	1,608,611	1,512,775
Other Revenue		
Forfeited discounts	15,153	17,917
Miscellaneous revenue	25,081	13,348
Total Other Revenues	40,234	31,265
Total Revenues	1,648,845	1,544,040
Operating Expenses		
Water purchased	694,378	637,339
Salaries	197,389	189,414
Maintenance materials and supplies	87,854	48,474
Power-pumping equipment	25,453	21,052
Operating supplies and expenses	13,644	15,701
Total Operating Expenses	1,018,718	911,980
Administrative and General		
Employee insurance	86,544	55,824
Salaries	48,937	49,521
Employee retirement	106,409	75,637
Legal and accounting	34,182	19,090
Insurance	26,840	35,532
Truck and equipment expenses	22,436	16,421
Office supplies	20,846	19,560
Computer/copier support	21,024	15,939
Utilities	17,244	16,266
Commissioners fees	18,000	16,400
Payroll taxes	17,332	16,547
Miscellaneous	13,306	4,814
Retirement health insurance	17,881	13,805
Employee uniforms	4,441	5,294
Rent	3,751	4,132
Employee training	1,420	3,947
Uncollectible revenue	-	1,426
Interest on customer deposits	893	448
Travel	462	46
Total Administrative and General	461,948	370,649

See accompanying notes.

West Shelby Water District
Statements of Revenues, Expenses and Changes in Net Position (Continued)
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(Restated)</u>
Other Operating Deductions		
Depreciation	\$ 543,663	\$ 538,872
Total Expenses	<u>2,024,329</u>	<u>1,821,501</u>
Total Operating Loss	(375,484)	(277,461)
Non-operating Revenues (Expenses)		
Net increase in fair value of investments	1,552	150
Investment income	23,447	21,798
Gain (loss) on disposal of assets	118,652	(97,403)
Interest on long-term debt	<u>(37,772)</u>	<u>(38,763)</u>
Total Non-operating Revenue (Expenses), net	<u>105,879</u>	<u>(114,218)</u>
Expenses Over Revenues	(269,605)	(391,679)
Changes in Equity Contribution		
Member tap on	42,553	47,176
Member construction contribution	<u>66,350</u>	<u>22,897</u>
Total Changes in Equity Contribution	<u>108,903</u>	<u>70,073</u>
Change in Net Position	(160,702)	(321,606)
Total Net Position, Beginning of Year	10,956,128	11,402,314
Restatement for Accounting Principle	<u>-</u>	<u>(124,580)</u>
Total Net Position, End of Year	<u><u>\$ 10,795,426</u></u>	<u><u>\$ 10,956,128</u></u>

See accompanying notes.

West Shelby Water District
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,630,319	\$ 1,559,499
Cash payments to suppliers for goods and services	(998,246)	(918,028)
Cash payments for employee salaries and benefits	<u>(398,056)</u>	<u>(315,481)</u>
Net Cash Provided by Operating Activities	234,017	325,990
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,251,863)	(159,607)
Proceeds from sale of assets	269,749	-
Principal payments on bonds and notes payable	(52,000)	(71,000)
Member construction contributions	66,350	22,897
Member tap fees	42,553	47,176
Interest payments on long-term debt	<u>(38,197)</u>	<u>(42,915)</u>
Net Cash Used in Capital and Related Financing Activities	(963,408)	(203,449)
Cash Flows from Investing Activities		
Interest received	23,447	21,798
Change in long term investments	352,779	(8,530)
Change in restricted cash and cash equivalents	<u>(58,215)</u>	<u>44,157</u>
Net Cash Provided by Investing Activities	<u>318,011</u>	<u>57,425</u>
Net (Decrease)/Increase in Cash & Cash Equivalents	(411,380)	179,966
Cash and Cash Equivalents, Beginning of Year	<u>1,749,811</u>	<u>1,569,845</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,338,431</u></u>	<u><u>\$ 1,749,811</u></u>

See accompanying notes.

West Shelby Water District
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Loss	\$ (375,484)	\$ (277,461)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	543,663	538,872
Change in retirement expense due to GASB 68	61,350	37,561
Change in insurance expense due to GASB 75	9,137	-
Accounts receivable	(1,152)	1,229
Inventories	3,406	(14,358)
Prepaid expenses and other	(2,322)	6,749
Accounts payable	18,315	13,744
Accrued taxes and payroll liabilities	(5,522)	5,424
Customer deposits	<u>(17,374)</u>	<u>14,230</u>
Net Cash Provided by Operating Activities	<u>\$ 234,017</u>	<u>\$ 325,990</u>

See accompanying notes.

West Shelby Water District
Notes to Financial Statements
Years Ended December 31, 2018 and 2017

Note A - Nature of Organization and Operations

The District was established by order of the Shelby County Fiscal Court on March 10, 1964. The District was established to develop and operate a complete water supply and distribution system, which services parts of Shelby County.

Note B - Summary of Significant Accounting Policies

1. **Basis of Presentation:** The accompanying financial statements have been prepared as an enterprise fund. Enterprise funds are designed to accumulate the total cost of providing a particular service and to indicate the extent user charges are sufficient to cover these costs. Customer meters are read and billed monthly at which time the receivable is recorded and revenue is recognized. No provision has been made for doubtful accounts as all accounts are considered fully collectible. The West Shelby Water District (the District) uses the accrual basis of accounting for financial accounting and reporting purposes.
2. **Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.
3. **Statement of Cash Flows:** For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.
4. **Inventory:** Inventories are stated at cost based on the weighted average method.
5. **Accounts Receivable:** Accounts receivable are for water sales to customers. The District bills its receivables on or about the 25th of each month and are due by the 10th of the following month. Customers that do not pay by the due date are assessed a 10% penalty and receive a past due notice. Management provides for probable uncollectible amounts of accounts receivable through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts if necessary. As of December 31, 2018, there is no allowance for doubtful accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.
6. **Property, Plant and Equipment:** Property, plant and equipment are capitalized and recorded at cost. The District has adopted a formal capitalization policy. The capitalization threshold for building and land improvements is \$2,000; the capitalization threshold is \$2,500 for all other categories of plant and equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following is a summary of the estimated useful lives used in computing depreciation:

Buildings and improvements	5 - 50 years
Machinery, equipment and leasehold improvements	5 - 25 years
Furniture and fixtures	5 - 25 years
Vehicles	5 years

Depreciation expense for the years ended December 31, 2018 and 2017 was \$543,663 and \$538,872.

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

7. Customer Deposits: Interest is accrued at a rate no greater than the District receives on cash investments and at no time greater than 6% annually.
8. New Customers: New service connection fees and construction contributions are recorded as an addition to net position. The cost of installation of the new service is recorded as an addition to plant assets and is subject to depreciation.
9. Accumulated Vacation and Sick Leave: On January 13, 1995, the Commissioners adopted a formal policy related to vacation and sick leave. Vacation is earned at rates varying from one to ten days per year depending on length of service. Sick leave accrues at the rate of 1/2 day for every month employed or six days per year and shall accumulate to a maximum of 20 days. After ten years of service, employees are given three weeks of vacation and four weeks of vacation are given to employees with twenty years of service. No accrual is necessary as a limited number of personnel are employed, and the amount of the accrual would be immaterial.
10. Retirement System: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the District's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2018.
11. Postemployment Benefits Other Than Pensions (OPEB): For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms. The liability was measured at June 30, 2018.
12. Subsequent Events: Subsequent events for the District have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

Note C - Concentration of Credit Risk

At December 31, 2018 and 2017 the carrying amount of the District's cash and investments were \$2,281,341 and \$2,987,285, respectively. All bank balances were fully collateralized by federal depository insurance up to \$250,000 and other securities pledged by the financial institutions.

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note D - Investments

The District reports investments utilizing a fair value hierarchy that prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three broad levels described as follows:

- Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.
- Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
December 31, 2018				
Certificates of Deposit	\$ 215,321	\$ -	\$ -	\$ 215,321
Bonds	<u>-</u>	<u>152,625</u>	<u>-</u>	<u>152,625</u>
	<u>\$ 215,321</u>	<u>\$ 152,625</u>	<u>\$ -</u>	<u>\$ 367,946</u>
Assets:				
December 31, 2017				
Certificates of Deposit	\$ 568,100	\$ -	\$ -	\$ 568,100
Bonds	<u>-</u>	<u>152,625</u>	<u>-</u>	<u>152,625</u>
	<u>\$ 568,100</u>	<u>\$ 152,625</u>	<u>\$ -</u>	<u>\$ 720,725</u>

Investments securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the values of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position and statement of activities. During the year ended December 31, 2018, the bonds had an unrealized gain of \$1,552. This unrealized gain was recorded as a net increase in the fair values of investments on the Statement of Revenues, Expenses and Change in Net Position. During the year ended December 31, 2017, the bonds had an unrealized gain of \$150 which was recorded as a net increase in the fair values of investments.

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note E - Restricted Cash and Cash Equivalents

	<u>2018</u>	<u>2017</u>
Depreciation fund	\$ 228,179	\$ 222,604
Sinking fund	297,371	244,731
Horizon Group rebate fund	39,207	39,207
Construction fund	<u>10,207</u>	<u>10,207</u>
	<u>\$ 574,964</u>	<u>\$ 516,749</u>

Restricted cash and cash equivalents include the construction fund account, Horizon Group rebate fund and two debt service reserve funds (depreciation and sinking).

The construction fund is being used for current and future construction projects. Customer contributions and unexpended bond proceeds are carried in this fund. The depreciation and sinking funds are debt reserve funds for the notes and bond payable. The Horizon Group rebate fund is used to reimburse the Horizon Group as more businesses tap-on to water meters that the Horizon Group purchased during the construction of the outlet mall.

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note F - Property, Plant and Equipment

Property, plant and equipment consist of the following components:

	Balance 2017	Additions	Deletions	Balance 2018
Business - Type Activities				
Transmission and Distribution Plant				
Land and land right	\$ 127,248	\$ 125,000	\$ (25,000)	\$ 227,248
Pumping equipment	1,951,433	307	-	1,951,740
Water treatment equipment	7,548	-	-	7,548
Standpipes	2,616,205	-	-	2,616,205
Transmission and distribution mains	8,243,462	298,972	-	8,542,434
Services and meters	769,817	50,816	-	820,633
Hydrants	352,871	550	-	353,421
Other plant equipment	19,887	-	-	19,887
Total	14,088,471	475,645	(25,000)	14,539,116
Less: Accumulated Depreciation	(5,070,649)	(515,776)	-	(5,586,425)
Total Transmission and Distribution Plant	9,017,822	(40,131)	(25,000)	8,952,691
General Plant				
Office furniture and equipment	107,594	1,900	-	109,494
Buildings	387,830	768,399	(258,500)	897,729
Transportation equipment	175,959	-	-	175,959
Tools, shop and garage equipment	100,016	-	-	100,016
Laboratory equipment	373	-	-	373
Communication equipment	6,243	5,919	-	12,162
Total	778,015	776,218	(258,500)	1,295,733
Less: accumulated depreciation	(467,414)	(27,887)	130,974	(364,327)
Total General Plant	310,601	748,331	(127,526)	931,406
Capital Assets, net	<u>\$ 9,328,423</u>	<u>\$ 708,200</u>	<u>\$ (152,526)</u>	<u>\$ 9,884,097</u>

Note G - Retirement Plan

General Information about the Pension Plan

Plan description. Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

**West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017**

Note G - Retirement Plan (Continued)

General Information about the Pension Plan (Continued)

Benefits provided. KRS Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute, there are currently three benefit Tiers. Tier 1 members are those participating in the plan before September 1, 2008, Tier 2 are those that began participation September 1, 2008 through December 31, 2013 and Tier 3 are those members that began participation on or after January 1, 2014.

Tier 1 Non-Hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 Non-Hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age plus earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 Non-Hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a members accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

The Kentucky General Assembly has the authority to increase, suspend or reduce Cost of Living Adjustments. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. Employees that entered the plan after September 1, 2008, are required to contribute 6% of their annual creditable compensation. 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). The District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended December 31, 2018, employer contributions for the District were \$53,804 (\$40,624 pension and \$13,180 insurance) based on a rate of 19.18% (14.48% pension and 4.70% insurance) (January 2018-June 2018) and 21.48% (16.22% pension and 5.26% insurance) (July 2018 - December 2018) of covered payroll. For the year ended December 31, 2017, employer contributions for the District were \$45,462 (\$34,132 pension and \$11,330 insurance) based on a rate of 18.68% (13.95% pension and 4.73% insurance) (January 2017-June 2017) and 19.18% (14.48% pension and 4.70% insurance) (July 2017 - December 2017) of covered payroll. By law, employer contributions are required to be paid. The KRS may intercept the District's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note G - Retirement Plan (Continued)

Net Pension Liability (Continued)

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

Inflation	2.30 percent
Salary increases	3.05 percent, average
Investment rate of return	6.25 percent

The mortality for active members is the 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%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years).

At the time of the last experience study, performed as of June 30, 2013, this mortality assumption provided 37% and 19% margin for future improvement for males and females, respectively. This will be reviewed again when the next experience investigation is conducted.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity		
US Large Cap	4.50%	5.00%
US Mid Cap	4.50%	6.00%
US Small Cap	5.50%	6.50%
International Equity		
International Developed	6.50%	12.50%
Emerging Markets	7.25%	5.00%
Global Bonds	3.00%	4.00%
Credit Fixed		
Global IG Credit	3.75%	2.00%
High Yield	5.50%	7.00%
EMD	6.00%	5.00%
Illiquid Private	8.50%	10.00%
Private Equity	6.50%	10.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Cash	1.50%	2.00%
	<u>6.09%</u>	<u>100.00%</u>

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note G - Retirement Plan (Continued)

Net Pension Liability (Continued)

Discount rate. The projection of cash flows used to determine the discount rate of 6.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major class are summarized in the Kentucky Retirement Systems' Comprehensive Annual Financial Report (CAFR).

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
West Shelby Water District's Net pension liability	\$ 689,729	\$ 547,884	\$ 429,042

Pension expense. For the year ended June 30, 2018, the District recognized pension expense of \$106,409.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Liability experience	17,870	8,020
Assumption changes	53,544	-
Investment experience	25,477	32,046
Change in proportionate share	39,825	518
Contributions subsequent to the measurement date of June 30, 2018	21,097	-
Total	\$ 157,813	\$ 40,584

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note G - Retirement Plan (Continued)

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2018, will be recognized as a reduction to net pension liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Recognition of Deferred Outflows (Inflows) of Resources for Future Plan Years

<u>Plan Year Ending June 30,</u>	<u>Recognition of Deferred Outflows (Inflows) of Resources</u>
2019	\$ 60,241
2020	38,056
2021	777
2022	<u>(2,942)</u>
	<u>\$ 96,132</u>

In the table shown above, deferred inflows of resources amounts will decrease pension expense while deferred outflows of resources amounts will increase pension expense.

Note H - Postemployment Benefits Other Than Pensions

Plan description. Employees of the District are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit other postemployment benefits (OPEB) plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note H - Postemployment Benefits Other Than Pensions (Continued)

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District's contractually required contribution rate for the period of January 2018 through June 2018 was 4.70% of covered payroll and the contribution rate for the period July 2018 through December 2018 was 5.26%. Contributions to the Insurance Fund from the District were \$11,218 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is 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).

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

At December 31, 2018, the District reported a liability of \$159,722 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for the plan fiscal year 2018 (July 1, 2017 through June 30, 2018). This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2018, the District's proportion was 0.008996%.

For the year ended December 31, 2018, the District recognized OPEB expense of \$17,881. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Liability experience	-	18,614
Assumption changes	31,899	369
Investment experience	-	11,002
Change in proportionate share	14,970	298
Contributions subsequent to the measurement date of June 30, 2018	<u>6,842</u>	<u>-</u>
Total	<u>\$ 53,711</u>	<u>\$ 30,283</u>

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note H - Postemployment Benefits Other Than Pensions (Continued)

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$6,842 resulting from the District's contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<u>Plan Year Ending June 30,</u>	<u>Recognition of Deferred Outflows (Inflows) of Resources</u>
2019	\$ 3,323
2020	3,323
2021	3,323
2022	5,460
2023	1,360
Thereafter	<u>(203)</u>
	<u>\$ 16,586</u>

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.30 percent
Salary increases	3.05 percent, average
Investment rate of return	6.25 percent

Healthcare cost trend rates Pre-65: Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.

Healthcare cost trend rates Post-65: Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note H - Postemployment Benefits Other Than Pensions (Continued)

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

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized below:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity		
US Large Cap	4.50%	5.00%
US Mid Cap	4.50%	6.00%
US Small Cap	5.50%	6.50%
International Equity		
International Developed	6.50%	12.50%
Emerging Markets	7.25%	5.00%
Global Bonds	3.00%	4.00%
Credit Fixed		
Global IG Credit	3.75%	2.00%
High Yield	5.50%	7.00%
EMD	6.00%	5.00%
Illiquid Private	8.50%	10.00%
Private Equity	6.50%	10.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Cash	1.50%	2.00%
	<u>6.09%</u>	<u>100.00%</u>

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note H - Postemployment Benefits Other Than Pensions (Continued)

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

Discount rate. The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the collective net OPEB liability as well as what the RWGS's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.85%) or 1 percentage point higher (6.85%) than the current discount rate:

	<u>1% Decrease</u> <u>(4.85%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(5.85%)</u>	<u>1% Increase</u> <u>(6.85%)</u>
West Shelby Water District's			
Net OPEB liability	\$ 207,454	\$ 159,722	\$ 119,064

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following table presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
West Shelby Water District's			
Net OPEB liability	\$ 118,915	\$ 159,722	\$ 207,822

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS financial report.

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note I - Bonds Payable

Rural Economic & Community Development

The bond payable is the amount due Rural Economic & Community Development for long term financing as follows at December 31, 2018:

Bonds dated January 11, 2001 for \$845,000 with interest at 5%	<u>\$ 635,000</u>
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The balance at December 31, 2017 was \$652,000. During 2018, \$17,000 of principal payments were made, which leaves an outstanding balance of \$635,000 at December 31, 2018. Future maturities of bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 18,000	\$ 31,750	\$ 49,750
2020	19,000	30,850	49,850
2021	19,000	29,900	48,900
2022	21,000	28,950	49,950
2023	21,000	27,900	48,900
2024-2028	126,000	122,250	248,250
2029-2033	159,000	87,600	246,600
2034-2038	205,000	43,500	248,500
2039	<u>47,000</u>	<u>2,350</u>	<u>49,350</u>
	<u>\$ 635,000</u>	<u>\$ 405,050</u>	<u>\$ 1,040,050</u>

All properties and assets, both real and personnel, and revenues are pledged to secure this loan.

Kentucky Rural Water Financing Corporation

The Kentucky Rural Water Financing Corporation Flexible Term Series 2013B bonds will have variable interest rates ranging from 2.00% - 4.50%. The bonds mature on February 1, 2023. The outstanding principal amount of the bonds at December 31, 2018 and 2017 was \$180,000 and \$215,000, respectively. The bonds were sold at a premium in the amount of \$35,744. The premium is being amortized over the term of the bonds. The unamortized bond premium is recorded as a noncurrent liability on the Statement of Net Position. The premium amortization, which is a decrease in interest expense, was \$2,981 for the years ended December 31, 2018 and 2017. The unamortized bond premium as of December 31, 2018 and 2017 was \$16,533 and \$19,514, respectively.

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note I - Bonds Payable (Continued)

Future maturities of bonds are as follows:

	Principal	Interest	Total
2019	\$ 35,000	\$ 6,650	\$ 41,650
2020	35,000	5,250	40,250
2021	40,000	3,750	43,750
2022	40,000	2,150	42,150
2023	30,000	675	30,675
	<u>\$ 180,000</u>	<u>\$ 18,475</u>	<u>\$ 198,475</u>

Note J - Long-term Debt

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

	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Enterprise Activities:				
General Obligation Bonds	\$ 652,000	\$ (17,000)	\$ 635,000	\$ 18,000
Kentucky Rural Water Note	<u>215,000</u>	<u>(35,000)</u>	<u>180,000</u>	<u>35,000</u>
Enterprise Activities				
Long-term Liabilities	<u>\$ 867,000</u>	<u>\$ (52,000)</u>	<u>\$ 815,000</u>	<u>\$ 53,000</u>

Note K - Revenue from Sale of Water

The District purchases 100% of the water it sells from two vendors. Approximately 74% of water is purchased from Louisville Water Company; the remaining 26% is purchased from the Shelbyville Municipal Water & Sewer Commission.

The following is a statistical analysis of water purchased, sold, and unbilled.

	Water Purchased		Water Sold		Water Unbilled	
	Gallons	Cost/1000	Gallons	Sold/1000		
2018	301,010,850	\$ 2.309	275,040,300	\$ 5.836	25,970,550	8.63%
2017	289,906,300	\$ 2.241	255,908,800	\$ 5.899	33,997,500	11.73%
2016	288,964,100	\$ 2.150	261,573,000	\$ 5.750	27,391,100	9.48%
2015	296,796,100	\$ 2.119	265,699,300	\$ 5.550	31,096,800	10.48%
2014	304,158,960	\$ 2.072	280,432,100	\$ 5.427	23,726,860	7.80%

West Shelby Water District
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

Note L - Future Accounting Pronouncements

In June 2017, the GASB issued statement No. 87, *Leases*. The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The District is currently evaluating the impact that will result from adopting GASB No. 87 and is therefore unable to disclose the impact that adopting this Standard will have on the District's financial position and the results of its operations when the Statement is adopted.

Note M - Restatement of Net Position

Beginning net position for fiscal year 2018 was restated to implement GASB Statement No. 75, *Accounting and Financial Reporting for OPEB* - an amendment of GASB Statement No. 45 and record the beginning Other Post Employment Benefits liability and related financial statement elements.

Net Position, December 31, 2017 prior to restatement	\$ 11,080,708
Actuarially determined outflow - OPEB	36,447
Deferred outflow - contributions - OPEB	5,872
Deferred inflows - OPEB	(8,303)
Net OPEB Liability, December 31, 2017	<u>(158,596)</u>
Net Position (restated), December 31, 2017	<u>\$ 10,956,128</u>

Note N - Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Reclassifications had no impact on total net position or change in net position.

Required Supplementary Information

West Shelby Water District
Required Supplementary Information - Schedule of Net Pension
Liability and Related Ratios Based on Participation in the
County Employees' Retirement Systems of KRS
Fiscal Year Ending June 30,

	2014	2015	2016	2017	2018
Total Net Pension Liability for County Employees Retirement Systems	\$ 3,244,377,000	\$ 4,299,525,000	\$ 4,923,618,000	\$ 5,853,307,443	\$ 6,090,305,000
Employer's Proportion (Percentage) of Net Pension Liability	0.009063055%	0.008081509%	0.007807870%	0.007889000%	0.008996000%
Employer's Proportion (Amount) of Net Pension Liability	294,040	347,467	384,430	461,767	547,884
Employer's Covered-Employer payroll	\$ 198,461	\$ 191,839	\$ 219,177	\$ 192,079	\$ 222,970
Employer's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of Employer's Covered-Employer Payroll	148.16%	181.12%	175.40%	240.40%	245.72%
Total Pension Plan's Fiduciary Net Position	\$ 6,528,146,000	\$ 6,440,800,000	\$ 6,141,395,000	\$ 6,687,237,000	\$ 7,018,963,000
Total Pension's Plan Pension Liability	\$ 9,772,523,000	\$ 10,740,325,000	\$ 11,065,013,000	\$ 12,540,545,000	\$ 13,109,268,000
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	66.80%	59.97%	55.50%	53.30%	53.54%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

See independent auditor's report.

West Shelby Water District
Required Supplementary Information - Schedule of Contributions
Based on Participation In the County Employees' Retirement
System of KRS
Fiscal Year Ending June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contribution	\$ 27,618	\$ 23,841	\$ 28,659	\$ 26,795	\$ 32,286
Contributions in relation to the actuarially determined contribution	<u>27,618</u>	<u>23,841</u>	<u>28,659</u>	<u>26,795</u>	<u>32,286</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 198,461	\$ 191,839	\$ 219,177	\$ 192,079	\$ 222,970
Contributions as a percentage covered-employee payroll	13.92%	12.43%	13.08%	13.95%	14.48%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.
See independent auditor's report.

Notes to Schedules Related to the County Employees' Retirement System of KRS Information

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00% average
Investment Rate of return	7.50%

See independent auditor's report.

West Shelby Water District
Required Supplementary Information - Schedule of Net OPEB
Liability and Related Ratios Based on Participation in the
County Employees' Retirement Systems of KRS
Fiscal Year Ending June 30,

	<u>2018</u>
Total Net OPEB Liability for County Employees Retirement Systems	\$ 1,775,480,122
Employer's Proportion (Percentage) of Net OPEB Liability	0.008996%
Employer's Proportion (Amount) of Net OPEB Liability	159,722
Employer's Covered-Employer payroll	\$ 222,970
Employer's Proportionate Share (Amount) of the Net OPEB Liability as a Percentage of Employer's Covered-Employer Payroll	71.63%
Total Pension Plan's Fiduciary Net Position	\$ 2,414,126,000
Total Pension's Plan OPEB Liability	\$ 4,189,606,000
Total Pension Plan's Fiduciary Net Position as a Percentage of Total OPEB Liability	57.62%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

See independent auditor's report.

West Shelby Water District
Required Supplementary Information - Schedule of Contributions
Based on Participation in the County Employees' Retirement
Insurance Fund System of KRS
Fiscal Year Ending June 30,

	<u>2018</u>
Actuarially determined contribution	\$ 10,479
Contributions in relation to the actuarially determined contribution	<u>10,479</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
Covered-employee payroll	\$ 222,970
Contributions as a percentage covered-employee payroll	4.70%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.
See independent auditor's report.

Notes to Schedules Related to the County Employees' Insurance Fund of KRS Information

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2018:

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll Growth Rate	4.00 percent
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Investment Rate of Return	7.50 percent
Retirement age	65 years or 27 years of service regardless of age
Healthcare Trend Rates Pre - 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Trend Rates Post - 65	Post - 65 Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

See independent auditor's report.

Supplementary Information

West Shelby Water District
Schedule of Revenues, Expenses and Changes in Net Position - Actual to Budget
Year Ended December 31, 2018

	Actual	Budget	Variance Favorable (Unfavorable)
Revenue from Sale of Water			
Residential customers	\$ 789,491	\$ 750,000	\$ 39,491
Industrial customers	408,639	400,000	8,639
Commercial customers	204,151	250,000	(45,849)
Public authorities	57,914	65,000	(7,086)
Private fire protection	76,346	75,000	1,346
Multi-family dwellings	68,473	45,000	23,473
Tax-exempt non-government	3,597	3,000	597
Total Revenue from Sale of Water	1,608,611	1,588,000	20,611
Other Revenue			
Forfeited discounts	15,153	18,000	(2,847)
Miscellaneous revenue	25,081	12,500	12,581
Total Other Revenues	40,234	30,500	9,734
Total Revenues	1,648,845	1,618,500	30,345
Operating and Maintenance Expenses			
Water purchased	694,378	620,000	(74,378)
Salaries	246,326	239,000	(7,326)
Employee insurance	86,544	74,000	(12,544)
Maintenance materials and supplies	87,854	35,500	(52,354)
Employee retirement	106,409	45,000	(61,409)
Insurance	26,840	25,000	(1,840)
Power-pumping equipment	25,453	22,000	(3,453)
Legal and accounting	34,182	20,000	(14,182)
Commissioners fees	18,000	18,000	-
Office supplies	20,846	19,000	(1,846)
Payroll taxes	17,332	17,000	(332)
Truck and equipment expenses	22,436	18,500	(3,936)
Utilities	17,244	15,000	(2,244)
Operating supplies and expenses	13,644	18,000	4,356
Computer/copier support	21,024	16,000	(5,024)
Retirement health insurance	17,881	8,700	(9,181)
Miscellaneous	13,306	5,600	(7,706)
Employee uniforms	4,441	4,500	59
Employee training	1,420	2,500	1,080
Rent	3,751	3,700	(51)
Interest on customer deposits	893	-	(893)
Travel	462	500	38
Total Operating and Maintenance Expenses	1,480,666	1,227,500	(253,166)

See independent auditor's report.

West Shelby Water District
Schedule of Revenues, Expenses and Changes in Net Position - Actual to Budget (Continued)
Year Ended December 31, 2018

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Other Operating Deductions			
Depreciation	<u>\$ 543,663</u>	<u>\$ 70,000</u>	<u>\$ (473,663)</u>
Total Other Operating Deductions	<u>543,663</u>	<u>70,000</u>	<u>(473,663)</u>
Total Expenses	<u>2,024,329</u>	<u>1,297,500</u>	<u>(726,829)</u>
Total Operating Loss	<u>(375,484)</u>	<u>321,000</u>	<u>(696,484)</u>
Non-operating Revenues (Expenses)			
Net increase in fair value of investments	1,552	-	1,552
Investment income	23,447	-	23,447
Gain (loss) on sale of assets	118,652	-	118,652
Interest on long-term debt	<u>(37,772)</u>	<u>-</u>	<u>(37,772)</u>
Total Non-operating Expenses, net	<u>105,879</u>	<u>-</u>	<u>105,879</u>
Excess Expenses Over Revenue	<u>\$ (269,605)</u>	<u>\$ 321,000</u>	<u>\$ (590,605)</u>

See independent auditor's report.

**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***

West Shelby Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Controller General of the United States, the financial statements of the business-type activities of the West Shelby Water District ("the District"), as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 20, 2019.

Internal Control Over Financial Reporting

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

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

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

**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* (Continued)**

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MCM CPA's & Advisors, LLC

Lexington, Kentucky
May 20, 2019