

**WESTERN FLEMING COUNTY
WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Western Fleming Water District, Kentucky
Ewing, KY

We have audited the accompanying financial statements of the business-type activities of Western Fleming Water District, Kentucky as of and for the year ended December 31, 2017 and December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Western Fleming Water District, Kentucky, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

The schedule of the District's proportionate share of net pension liability and schedule of District contributions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 the District's proportionate share of net pension liability and schedule of District contributions are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2018, on our consideration of the Western Fleming Water District, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Western Fleming Water District, Kentucky's internal control over financial reporting and compliance.

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 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 appropriated operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

May 7, 2018

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND**

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

ASSETS & DEFERRED OUTFLOWS	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and Cash Equivalents-Unrestricted	\$ 702,447	\$ 756,976
Unbilled Revenue	71,104	52,065
Accounts Receivable (net of allowance for doubtful accounts of \$19,315 and \$12,629 at December 31, 2017 and 2016.)	96,620	99,155
Prepaid Insurance	<u>10,404</u>	<u>10,404</u>
Total Current Assets	<u>880,575</u>	<u>918,600</u>
Restricted Assets		
Cash and Cash Equivalents-Restricted	332,456	325,080
Bond Issue Costs	-	-
Total Restricted Assets	<u>332,456</u>	<u>325,080</u>
Noncurrent assets:		
Nondepreciable Capital Assets:		
Land	165,710	165,710
Construction-in-Progress	168,340	102,533
Depreciable Capital Assets:		
Property, Plant and Equipment	11,038,399	10,976,517
Less: Accumulated depreciation	<u>(5,094,165)</u>	<u>(4,861,232)</u>
Total Noncurrent Assets	<u>6,278,283</u>	<u>6,383,527</u>
Deferred Outflow of Resources	<u>91,906</u>	<u>57,722</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 7,583,222</u>	<u>\$ 7,684,930</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts Payable	\$ 41,501	\$ 40,258
Accrued Retirement	4,322	3,619
Accrued Taxes	8,659	6,851
Accrued Interest Payable	-	-
Current Portion of Long-term Debt	<u>167,083</u>	<u>161,016</u>
Total Current Liabilities	<u>221,564</u>	<u>211,744</u>
Noncurrent Liabilities:		
Accrued Pension & OPED	357,607	230,489
Notes Payable, Net of Current Portion	<u>3,092,307</u>	<u>3,259,688</u>
TOTAL LIABILITIES	<u>3,671,479</u>	<u>3,701,920</u>
Deferred Inflow of Resources	<u>30,432</u>	<u>50,586</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	3,701,911	3,752,506
NET POSITION		
Net Investment in Capital Assets	2,850,553	2,860,291
Restricted for:		
Debt Service	29,241	27,627
Capital Projects and Replacement	208,408	207,888
Unrestricted	<u>793,110</u>	<u>836,615</u>
TOTAL NET POSITION	<u>\$ 3,881,311</u>	<u>\$ 3,932,424</u>

See accompanying notes to the financial statements.

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
OPERATING REVENUES:		
Water Operating Revenues	\$ 1,163,638	\$ 1,154,333
TOTAL OPERATING REVENUES	1,163,638	1,154,333
OPERATING EXPENSES:		
Chemicals	126,292	115,089
Contract Service - Accounting	12,770	10,250
Contract Service - Legal	1,925	10,261
Contract Service - Other	76,725	28,367
Water Testing	26,071	13,381
Insurance	20,637	22,370
Health Insurance	48,812	43,594
Materials and Supplies	65,225	49,578
Office Supplies	10,837	10,969
Telephone & Utilities	4,814	4,385
Miscellaneous	4,231	4,845
Payroll Taxes	18,605	18,054
Purchased Power	84,182	97,879
Purchased Water	65,387	82,751
Retirement	106,964	16,075
Service Fees	1,735	7,445
Bad Debt Expense	-	1,434
Penalties	-	-
Depreciation	232,933	232,162
Amortization	-	-
Salaries - Commissioners	21,200	24,000
Salaries - Employees	216,620	198,472
TOTAL OPERATING EXPENSES	1,145,964	991,362
OPERATING INCOME (LOSS)	17,674	162,971
NONOPERATING REVENUES:		
Customer Tap Fees	9,125	12,650
Gain(Loss) Sale of Assets	-	-
DOT project flow through income	-	-
DOT project flow through expense	-	-
Interest Income	2,670	3,190
Interest Expense	(80,581)	(87,283)
TOTAL NONOPERATING REVENUES	(68,786)	(71,443)
Net Income Before Capital Contribution	(51,112)	91,543
Capital Contribution	-	-
CHANGE IN NET POSITION	(51,112)	91,543
NET POSITION - Beginning of year	3,932,423	3,840,881
	-	-
NET POSITION - End of year	\$ 3,881,311	\$ 3,932,423

See accompanying notes to the financial statements.

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	1,163,638	1,154,333
Cash Payments to Suppliers for Goods and Services	(469,377)	(509,550)
Cash Payments for Salaries and Benefits	(391,001)	(276,195)
Other Receipts (Payments)	-	-
Net Cash Provided (Used) by Operating Activities	303,260	368,589
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	2,670	3,190
Net Cash Provided (Used) by Investing Activities	2,670	3,190
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	-	-
Principal Paid on Capital Debt	(161,314)	(159,050)
Purchases of Capital Assets	(127,689)	(238,686)
State Grants Received	-	-
Contributed Capital - Tap Fees	9,125	12,650
Interest Paid on Capital Debt	(80,581)	(87,283)
Net Cash Provided (Used) by Financing Activities	(360,458)	(472,370)
NET INCREASE (DECREASE) IN CASH	(54,528)	(100,591)
Cash and Cash Equivalents - Beginning of Year	756,976	857,568
Cash and Cash Equivalents - End of Year	\$ 702,447	\$ 756,976
RECONCILIATION OF OPERATING INCOM (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	17,674	162,971
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation Expense	232,933	232,162
Amortization Expense	-	-
Change in Assets and Liabilities:		
Accounts Receivable	(16,504)	(4,254)
Prepaid Expense	-	-
Accounts Payable and Other Payables	66,649	(21,381)
Accrued Wages and Vacation	2,510	(907)
Net Cash Provided (Used) by Operating Activities	\$ 303,260	\$ 368,589

Supplemental Disclosures:

Interest paid was \$80,581 and \$ 87,283 in 2017 and 2016 respectively.

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 1: ORGANIZATION AND ACCOUNTING POLICIES

The Western Fleming Water District was created and organized as a public body corporate in Fleming County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Fleming County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operation of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Western Fleming Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (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.

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 management focus. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

Note 1: ORGANIZATION AND ACCOUNTING POLICIES

Basis of Accounting

The District maintains its accounting records on the accrual basis during the year. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is maintained at lower of cost or market.

Utility Plant

Utility Plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation

Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates on a straight-line basis determined by reference to Utility Standards Rates (NARUC). The provisions for depreciation in 2014 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statement include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

Net Position

Net position represent the difference between assets and liabilities in the statement of net assets. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that is the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does have a deposit policy for custodial credit risk. As of December 31, 2017, \$0 of the bank balance was exposed to custodial credit risk.

NOTE 3: LONG-TERM DEBT

Depreciation fund and bond reserve funds that are required by the 1969, 1988, 03 and 04 bond indentures are held as time deposits and certificates of deposit by Community Trust Bank-Ewing Branch at Ewing, Kentucky. The Depreciation Funds are sufficiently funded. The current depreciation funds currently total \$192,102 the required level is \$122,400. The amount they are over funded by is \$69,702. The depreciation fund required by the 1988 bond indenture requires that a deposit of \$170 be deposited monthly. As of December 31, 2017, the 1988 depreciation reserve fund had a balance of \$80,151. The 2004 bond indenture requires a bond reserve fund be set-up with the Regions bank. This account is set-up and had a balance of \$29,240 as of December 31, 2017. The new KIA loan for \$2,066,437 requires a R&M Reserve of \$6,500 per year until the account reaches \$65,000. The account should have \$45,500 in it as of December 31, 2017. This account has \$45,682. This account is over funded by \$182 at December 31, 2017.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2017 and 2016

Note: LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance
1980 Bond	\$ 124,000	\$ -	\$ 27,000	\$ 97,000
1988 Bond	179,000	-	11,000	168,000
1997 Bond	500,500	-	14,500	486,000
2002 Bond	420,000	-	9,000	411,000
2004 Bond	76,000	-	23,000	53,000
2010 KIA Loan, \$2,066,437 Loan #F08-01 Interest 1% payable semi-annually	2,121,203	-	76,813	2,044,390
	3,420,703	-	161,313	3,259,390
Less: Current Maturities	161,016			167,083
Totals	<u>\$ 3,259,687</u>			<u>\$ 3,092,307</u>

The following is a schedule of long-term debt maturities:

	Principal	Interest
2018	167,083	61,672
2019	174,861	57,712
2020	158,146	54,151
2021	121,940	50,864
2022	124,241	48,485
2023-2027	667,011	203,675
2028-2032	666,287	138,622
2033-2037	721,649	79,851
2038-2042	458,172	21,179
2043-2047	-	-
	<u>\$ 3,259,390</u>	<u>\$ 716,211</u>

WESTERN FLEMING COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2017 and 2016

NOTE 4: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2017 was as follows:

Business-Type Activities	Balance Jan 1, 2017	Additions	Deductions	Balance Dec 31, 2017
Cost:				
Land	\$ 165,710			\$ 165,710
Plant in Service	10,794,429	53,316		10,847,745
Other Depreciable Assets	182,089	8,566		190,655
Construction in Progress	102,533	65,807		168,340
Totals at historical cost	11,244,760	127,689	-	11,372,449
Less accumulated depreciation:				
Depreciation	4,861,231	232,933		5,094,164
Total accumulated depreciation	4,861,231	232,933	-	5,094,164
Business-Type Activities Capital Assets - Net	\$ 6,383,527	\$ (105,245)	\$ -	\$ 6,278,283

Capital asset activity for the fiscal year ended December 31, 2015 was as follows:

Business-Type Activities	Balance Jan 1, 2016	Additions	Deductions	Balance Dec 31, 2016
Cost:				
Land	\$ 165,710	\$ -	\$ -	\$ 165,710
Plant in Service	10,658,275	136,154	-	10,794,429
Other Depreciable Assets	182,089	-	-	182,089
Construction in Progress	-	102,533	-	102,533
Totals at historical cost	11,006,073	238,687	-	11,244,760
Less accumulated depreciation:				
Depreciation	4,629,069	232,162		4,861,231
Total accumulated depreciation	4,629,069	232,162	-	4,861,231
Business-Type Activities Capital Assets - Net	\$ 6,377,003	\$ 6,525	\$ -	\$ 6,383,527

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description- Regular, Full-time, employees of the Commission are provided with pensions through the County Employees Retirement System (CERS)- a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested as a whole each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefits terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky retirement System issues a publicly available financial report that can be obtained on their website.

Benefits provided- CERS provides retirement, insurance, disability and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the legislature.

Contributions- Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The District's contractually required contribution rate for the year ended June 30, 2017 was 18.68% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to pension plan from the District were \$34,083 for the year ended December 31, 2017.

WESTERN FLEMING COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2017 and 2016

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

At December 31, 2017, The District reported a liability of \$357,607 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's portion of the net pension liability was based on the District's proportionate share of retirement contributions for the year ended December 31, 2017. At June 30, 2016 the District's proportionate share was 0.00726%.

For the year ended December 31, 2017 the District recognized pension expense of \$49,722. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual Earnings on pension plan investments	\$ -0-	\$ 30,432
District's contributions subsequent To the measure date	<u>91,906</u>	<u>-0-</u>
Total	\$ 91,906	\$ 30,432

\$91,906 reported as deferred outflows of resources related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2018	\$ 6,087
December 31, 2019	6,087
December 31, 2020	6,087
December 31, 2021	6,087
December 31, 2022	6,087
Thereafter	<u>-0-</u>
Total	\$30,432

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial assumptions- The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4.0% average including inflation
Investment rate of return	7.50% net of pension plan investment expense Including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005-June 30, 2008.

~~The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008 is outlined in a report dated August 25, 2009. Several factors are considered evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) were developed by the invest consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation a change in the inflation assumption or fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:~~

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

DEFINED BENEFIT PENSION PLAN (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Unexpected Nominal Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	<u>1%</u>	3.25%
	100%	

Discount Rate- The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate- The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease	Current	1% Discount Rate
Increase	<u>6.75%</u>	<u>7.75%</u>	<u>8.75%</u>
Center's Proportionate Share of the net pension liability	\$311,436	\$357,607	\$403,738

Pension plan fiduciary net position- Detailed information about the pension plan's fiduciary net position is available in the separate issued CERS financial report.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

KENTUCKY EMPLOYEES DEFERRED COMPENSATION PLAN

Kentucky Public Employees' Deferred Compensation Authority (KDC) is authorized under the Kentucky Revised Statutes (18A.230-18A.275) to provide administration of tax-deferred supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate. It is an agency attached to the Personnel Cabinet of the Commonwealth of Kentucky for administrative purposes only.

A 457(b) pre-tax plan is a governmental deferred compensation plan that allows participants to make tax-deferred contributions each pay period, which are then invested and potentially grow usually until retirement. The Kentucky Public Employees' Deferred Compensation Authority (KDC) 457(b) Deferred Compensation Plan allows State employees to get the same benefit through a program that is specifically tailored to the needs of Kentucky public employees. A minimum monthly payroll contribution of \$30 per plan is required. The internal Revenue Service's maximum elective deferrals for 2017 is \$18,000 for those under age 50, \$18,000 age 50 and up, and \$36,000 for special catch-up contributions. You can learn more about the plan by visiting the Kentucky Deferred Comp website at www.KentuckyPlans.com.

Employee contributions to the plan for the year were \$9,001.

NOTE 6: CUSTOMERS

The amount of non-residential customers as of December 31, 2017 was 23. The number of residential customers as of December 31, 2016 was 1,465. The total was 1,488.

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8: CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

NOTE 9: SUBSEQUENT EVENTS

There were no subsequent events to report as of May 7, 2018.

SUPPLEMENTAL INFORMATION

**WESTERN FLEMING COUNTY WATER DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2017**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$3,000,000	7-1-18
Property-Building & Contents	\$4,217,856	7-1-18
Equipment & Vehicles	\$24,800	9-11-18
Treasurer and Commissioners	\$150,000	5-13-18
Workers Compensation	Statutory	7-1-18

WESTERN FLEMING COUNTY WATER DISTRICT
SCHEDULE OF WATER DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
District's proportion of the net pension liability	0.00726%	0.00536%	0.00732%
District's proportionate share of the net pension liability	\$ 357,607	\$ 230,489	\$ 238,000
District's covered employee payroll	\$ 187,244	\$ 184,205	\$ 169,801
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	190.984%	125.126%	140.164%
Plan fiduciary net position as a percentage of the total pension liability	9.21%	5.86%	6.20%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

WESTERN FLEMING COUNTY WATER DISTRICT
 SCHEDULE OF PENSION CONTRIBUTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution:	\$ 20,635	\$ 15,279	\$ 31,732
Contributions in relation to the contractually required contribution:	<u>20,635</u>	<u>15,279</u>	<u>31,732</u>
Contribution deficiency (excess):	-	-	-
District's covered-employee payroll:	187,244	184,205	169,801
District's proportionate share of the pension contributions as a percentage of its covered-employee payroll:	11.02%	8.29%	18.69%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

REQUIRED SUPPLEMENTARY INFORMATION

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2017

(1) CHANGES OF ASSUMPTIONS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2016:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS

To the Board of Commissioners
Western Fleming County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Fleming County Water District District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Western Fleming County Water District District, Kentucky's basic financial statements and have issued our report thereon dated May 7, 2018.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Fleming County Water District District, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

May 7, 2018

DONNA J. HENDRIX

CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

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Board of Commissioners
Western Fleming County Water District
Ewing, Kentucky

In planning and performing my audit of the basic financial statements of Western Fleming County Water District for the year ended December 31, 2017, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for increasing operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated May 7, 2018, on the financial statements of the Western Fleming County Water District.

I will review the status of these comments and suggestions with various District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Donna J. Hendrix, CPA

DONNA J. HENDRIX, CPA

Morehead, Kentucky

May 7, 2018

WESTERN FLEMING COUNTY WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2017

Status of Prior Year Management Points

2016-1 Approval of monthly bank statements
Condition: A member of the Board of Commissioners is not reviewing and signing off on the monthly bank statement.

Recommendation: A member of the Board of Commissioners should review and sign off on each monthly bank statement.

Status: This has not been implemented. Will carry to 2017-1.

2016-2 Loan Reserve account underfunded by \$6,321.
Condition: The loan agreements with KIA requires \$6,500 per year be set aside into a separate cash account for repairs. The District has established the separate account; however, the account is underfunded by \$6,321

Recommendation: The District must resume the proper funding as required.

Status: This has been resolved.

Current Year Management Points

2017-1 Approval of monthly bank statements
Condition: A member of the Board of Commissioners is not reviewing and signing off on the monthly bank statement.

Recommendation: A member of the Board of Commissioners should review and sign off on each monthly bank statement.

Response: This will be implemented immediately.

WESTERN FLEMING COUNTY WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2017

2017-2 Approval of monthly discounts/adjustments report.

Condition: A member of the Board of Commissioners is not reviewing and signing off on the monthly discounts/adjustments report.

Recommendation: A member of the Board of Commissioners should review and sign off on each monthly discounts/adjustments report. This will show all customer accounts that received a billing adjustment, the Board should review each of these to make sure all adjustments were approved by the Board.

Response: The Board will implement immediately.
