

**WESTERN FLEMING COUNTY
WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes In Net Position	4
Statements of Cash Flows	5
Notes to the Financial Statements	6-23
<u>Supplemental Information</u>	
Supplemental Information Required by Rural Development	24
Schedule of the District's Proportionate Share of the New Pension Liability	25
Schedule of Pension Contributions	26
Schedule of Proportionate Share of Net OPEB Liability	27
Schedule of Contributions-OPEB	28
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 <i>Government Auditing Standards</i>	29-30
Independent Auditor's Transmittal Letter For Management Letter Points	31
Management Letter Points	32-33

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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, 2018 and December 31, 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 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, 2018, 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 21, 2019, 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 21, 2019

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

ASSETS & DEFERRED OUTFLOWS	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and Cash Equivalents-Unrestricted	\$ 600,305	\$ 702,447
Unbilled Revenue	48,051	71,104
Accounts Receivable (net of allowance for doubtful accounts of \$19,315 and \$19,315 at December 31, 2018 and 2017.)	96,204	96,620
Prepaid Insurance	<u>10,404</u>	<u>10,404</u>
Total Current Assets	<u>754,965</u>	<u>880,575</u>
Restricted Assets		
Cash and Cash Equivalents-Restricted	331,707	332,456
Bond Issue Costs	-	-
Total Restricted Assets	<u>331,707</u>	<u>332,456</u>
Noncurrent assets:		
Nondepreciable Capital Assets:		
Land	167,547	165,710
Construction in Progress	50,000	168,340
Depreciable Capital Assets:		
Property, Plant and Equipment	11,269,329	11,038,399
Less: Accumulated depreciation	<u>(5,336,088)</u>	<u>(5,094,165)</u>
Total Noncurrent Assets	<u>6,150,788</u>	<u>6,278,283</u>
Deferred Outflow of Resources-OPEB	161,655	-
Deferred Outflow of Resources-Pension	39,010	91,906
Total Deferred Outflow of Resources	<u>200,665</u>	<u>91,906</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 7,438,126</u>	<u>\$ 7,583,222</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts Payable	\$ 28,150	\$ 41,501
Accrued Retirement	4,891	4,322
Accrued Taxes	8,244	8,659
Accrued Interest Payable	-	-
Current Portion of Long-term Debt	<u>174,861</u>	<u>167,083</u>
Total Current Liabilities	216,146	221,564
Noncurrent Liabilities:		
Accrued OPEB	146,011	-
Accrued Pension	425,126	357,607
Notes Payable, Net of Current Portion	<u>2,919,446</u>	<u>3,092,307</u>
Total NonCurrent Liabilities	3,490,583	3,449,914
Deferred Inflow of Resources		
Deferred Inflow of Resources-OPEB	745	-
Deferred Inflow of Resources-Pension	<u>21,070</u>	<u>30,432</u>
Total Deferred Inflow of Resources	21,815	30,432
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	3,728,545	3,701,911
NET POSITION		
Net Investment in Capital Assets	3,006,481	2,850,553
Restricted for:		
Debt Service	31,994	29,241
Capital Projects and Replacement	208,929	208,408
Unrestricted	<u>462,177</u>	<u>793,110</u>
TOTAL NET POSITION	<u>\$ 3,709,581</u>	<u>\$ 3,881,311</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, 2018 AND 2017**

	2018	2017
OPERATING REVENUES:		
Water Operating Revenues	\$ 1,200,557	\$ 1,163,638
TOTAL OPERATING REVENUES	1,200,557	1,163,638
OPERATING EXPENSES:		
Chemicals	158,496	126,292
Contract Service - Accounting	15,220	12,770
Contract Service - Legal	2,100	1,925
Contract Service - Other	35,994	76,725
Water Testing	21,168	26,071
Insurance	24,922	20,637
Health Insurance	45,123	48,812
Materials and Supplies	81,290	65,225
Office Supplies	19,405	10,837
Telephone & Utilities	7,357	4,814
Miscellaneous	10,196	4,231
Payroll Taxes	21,971	18,605
Purchased Power	109,858	84,182
Purchased Water	68,876	65,387
Retirement	38,192	106,964
Service Fees	14,253	1,735
Bad Debt Expense	-	-
Penalties	2,360	-
Depreciation	241,922	232,933
Amortization	-	-
Salaries - Commissioners	24,000	21,200
Salaries - Employees	253,825	216,620
TOTAL OPERATING EXPENSES	1,196,527	1,145,964
OPERATING INCOME (LOSS)	4,029	17,674
NONOPERATING REVENUES:		
Customer Tap Fees	6,800	9,125
Gain(Loss) Sale of Assets	-	-
DOT project flow through income	-	-
DOT project flow through expense	-	-
Interest Income	3,405	2,670
Interest Expense	(80,719)	(80,581)
TOTAL NONOPERATING REVENUES	(70,514)	(68,786)
Net Income Before Capital Contribution	(66,484)	(51,112)
Capital Contribution	-	-
CHANGE IN NET POSITION	(66,484)	(51,112)
NET POSITION - Beginning of year	3,776,065	3,932,423
	-	-
NET POSITION - End of year	\$ 3,709,581	\$ 3,881,311

See accompanying notes to the financial statements.

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	1,200,557	1,163,638
Cash Payments to Suppliers for Goods and Services	(593,563)	(469,377)
Cash Payments for Salaries and Benefits	(359,111)	(391,001)
Other Receipts (Payments)	-	-
Net Cash Provided (Used) by Operating Activities	247,883	303,260
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	3,405	2,670
Net Cash Provided (Used) by Investing Activities	3,405	2,670
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	-	-
Principal Paid on Capital Debt	(165,083)	(161,314)
Purchases of Capital Assets	(114,427)	(127,689)
State Grants Received	-	-
Contributed Capital - Tap Fees	6,800	9,125
Interest Paid on Capital Debt	(80,719)	(80,581)
Net Cash Provided (Used) by Financing Activities	(353,428)	(360,458)
NET INCREASE (DECREASE) IN CASH	(102,141)	(54,528)
Cash and Cash Equivalents - Beginning of Year	702,447	756,976
Cash and Cash Equivalents - End of Year	\$ 600,305	\$ 702,447
RECONCILIATION OF OPERATING INCOM (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	4,029	17,674
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation Expense	241,922	232,933
Amortization Expense	-	-
Change in Assets and Liabilities:		
Accounts Receivable	23,468	(16,504)
Prepaid Expense	-	-
Accounts Payable and Other Payables	(21,690)	66,649
Accrued Wages and Vacation	154	2,510
Net Cash Provided (Used) by Operating Activities	\$ 247,883	\$ 303,260

Supplemental Disclosures:

Interest paid was \$80,719 and \$ 80,581 in 2018 and 2017 respectively.

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

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, 2018 and 2017

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 2018 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, 2018 and 2017

Net Position

Net position represents 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 in 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, 2018, \$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 \$70,081. The depreciation fund required by the 1988 bond indenture requires that a deposit of \$170 be deposited monthly. As of December 31, 2018, the 1988 depreciation reserve fund had a balance of \$80,352. 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 \$31,994 as of December 31, 2018. 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 \$52,000 in it as of December 31, 2018. This account has \$45,896. This account is over funded by \$6,104 at December 31, 2018.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

Note: LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance
1980 Bond	\$ 97,000	\$ -	\$ 28,000	\$ 69,000
1988 Bond	168,000	-	12,000	156,000
1997 Bond	486,000	-	15,500	470,500
2002 Bond	411,000	-	9,000	402,000
2004 Bond	53,000	-	23,000	30,000
2010 KIA Loan, \$2,066,437 Loan #F08-01 Interest 1% payable semi-annually	2,044,390	-	77,583	1,966,807
	<u>3,259,390</u>	-	<u>165,083</u>	<u>3,094,307</u>
Less: Current Maturities	<u>167,083</u>			<u>174,861</u>
Totals	<u>\$ 3,092,307</u>			<u>\$ 2,919,446</u>

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

	Principal	Interest
2019	174,861	57,712
2020	158,146	54,151
2021	121,940	50,864
2022	124,241	48,485
2023	127,551	46,028
2024-2028	682,682	190,000
2029-2033	661,170	127,193
2034-2038	700,257	67,064
2039-2043	343,756	13,042
2044-2047	-	-
	<u>\$ 3,094,307</u>	<u>\$ 654,537</u>

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 4: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2018 was as follows:

Business-Type Activities	Balance Jan 1, 2018	Additions	Deductions	Balance Dec 31, 2018
Cost:				
Land	\$ 165,710	\$ 1,838		\$ 167,548
Plant in Service	10,847,745	220,064		11,067,809
Other Depreciable Assets	190,655	10,866		201,521
Construction in Progress	168,340		118,340	50,000
Totals at historical cost	<u>11,372,449</u>	<u>232,767</u>	<u>118,340</u>	<u>11,486,876</u>
Less accumulated depreciation:				
Depreciation	5,094,164	241,922		5,336,088
Total accumulated depreciation	<u>5,094,164</u>	<u>241,922</u>	<u>-</u>	<u>5,336,088</u>
Business-Type Activities Capital Assets - Net	<u>\$ 6,278,283</u>	<u>\$ (9,155)</u>	<u>\$ 118,340</u>	<u>\$ 6,150,788</u>

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	<u>11,244,760</u>	<u>127,689</u>	<u>-</u>	<u>11,372,449</u>
Less accumulated depreciation:				
Depreciation	4,861,231	232,933		5,094,164
Total accumulated depreciation	<u>4,861,231</u>	<u>232,933</u>	<u>-</u>	<u>5,094,164</u>
Business-Type Activities Capital Assets - Net	<u>\$ 6,383,527</u>	<u>\$ (105,245)</u>	<u>\$ -</u>	<u>\$ 6,278,283</u>

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 5: DEFINED BENEFIT PENSION PLAN

Western Fleming Water District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan-Description - CERS is a cost-sharing-multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions - For the year ended June 30, 2018, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% of each employee's wages. The contributions are allocated to both the pension and insurance trusts. Plan members contributed 14.48% to the pension trust for non-hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's

WESTERN FLEMING WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the years ended December 31, 2018 and 2017

NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)

account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended December 31, 2018, the District contributed \$24,957, or 100% of the required contribution. The contribution was allocated \$24,670 to the CERS pension fund and \$287 to the CERS insurance fund.

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

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old or 25 years service and any age
Tier2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ At least 10 years service and 60 years old
Tier3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87+ Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

**WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At December 31, 2018, the District reported a liability for its proportionate share of the net pension liability of \$425,126. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2017 was .007263 percent, which was an increase of .000003 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$47,284. At December 31, 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 Resources
Differences between expected and actual results	\$ 527	\$ 10,792
Changes of assumptions	78,447	
Net difference between projected and actual earnings on Plan investments	5,258	
Changes in proportion and differences between District . contributions and proportionate share of contributions	30,139	10,278
District contributions subsequent to the measurement date	47,284	
Total	\$ <u>161,655</u>	\$ <u>21,070</u>

The \$47,284 of deferred outflows of resources 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 ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2019	\$ 43,493
2020	\$ 40,943
2021	\$ 14,324
2022	\$ (5,459)

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

**WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
	3.05%, average, including inflation
	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the 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.

The actuarial assumptions used in the June 30, 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer 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 a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long -Term Nominal Real Rate of Return
U.S. Equity	26.5%	11.27%
Non-U.S. Equity	26.5%	2.83%
Fixed Income	12.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	<u>2.0%</u>	3.65%
	100%	

**WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate - The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26- year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bondrate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	<u>Discount rate</u>	<u>District's proportionate share of net pension liability</u>
1% decrease	5.25%	\$ 536,177
Current discount rate	6.25%	\$ 425,126
1% increase	7.25%	\$ 332,232

Payable to the Pension Plan - At December 31, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2018, of which \$0 was allocated to the CERS pension fund. The payable includes only the pension contribution allocation.

WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 5: Postemployment Benefits Other Than Pensions (OPEB)

Plan Description - As more fully described in Note 7, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions-As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ending December 31, 2018, the employer's contribution was 4.70% to the insurance trust. Employees hired after September 1, 2008 were required to contribute to an additional 1% to cover the cost of medical insurance that is provided through GERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2018, the District contributed \$8,365, or 100% of the required contribution.

Benefits - CERS provides health insurance benefits to Plan employees and beneficiaries. For retirement purposes, employees are grouped into three tiers based on hire date:

**WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 5: Postemployment Benefits Other Than Pensions (OPEB)

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

**WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 5: Postemployment Benefits Other Than Pensions (OPEB)

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources-At December 31, 2018, the District reported a liability for its proportionate share of the net OPEB liability of \$146,011. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2017 was .007263%.

For the year ended December 31, 2018, the District recognized OPEB expense of \$8,365. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of of Resources	Deferred Inflows Resources
Differences between expected and actual results	\$	\$ 406
Changes of assumptions	31,771	
Net difference between projected and actual earnings on Plan investments	6,900	0
Changes in proportion and differences between District contributions and proportionate share of contributions	339	339
District contributions subsequent to the measurement date	<u>0</u>	
Total	<u>\$39,010</u>	<u>\$ 745</u>

The \$0 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. This includes an adjustment of \$2,333 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,			
2019	\$	4,151	
2020	\$	4,151	
2021	\$	4,151	
2022	\$	4,151	
2023	\$	5,876	
2024	\$	1,645	

WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 5: Postemployment Benefits Other Than Pensions (OPEB)

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

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	
Pre - 65:	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65:	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

Mortality rates were based on the 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.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

**WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 5: Postemployment Benefits Other Than Pensions (OPEB)

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 a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
U.S Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	2.0%	2.69%
Total	100%	

Discount Rate- The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year 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 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. 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.

**WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 5: Postemployment Benefits Other Than Pensions (OPEB)

Sensitivity of the District's Proportionate Share of the Net OPEB 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 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 or 1-percentage-point higher than the current rate:

	<u>Discount rate</u>	<u>District's proportionate share of net OPEB liability</u>
1% decrease	4.84%	\$ 185,792
Current discount rate	5.84%	\$ 146,011
1% increase	6.84%	\$ 112,908

**WESTERN FLEMING WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 5: Postemployment Benefits Other Than Pensions (OPEB)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the District's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	District's proportionate share of net OPEB liability
1% decrease	\$ 185,791
Current trend rate	\$ 146,011
1% increase	\$ 112,907

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

Payable to the Pension Plan - At December 31, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2018. The payable includes only the insurance contribution allocation.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 6: CUSTOMERS

The amount of non-residential customers as of December 31, 2018 was 22. The number of residential customers as of December 31, 2018 was 1,475. The total was 1,497.

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 21, 2019.

NOTE 10: RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No.75

During 2018 the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards, GASB requires that cost-sharing governments report a new OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

Net position, at beginning of year	\$3,881,311
Beginning net OPEB liability	<u>(105,246)</u>
Net position, at beginning of year, as restated	\$3,776,065.

REQUIRED SUPPLEMENTARY INFORMATION

**WESTERN FLEMING COUNTY WATER DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2018**

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	7-1-19
Property-Building & Contents	\$4,217,856	7-1-19
Equipment & Vehicles	\$24,800	9-11-19
Treasurer and Commissioners	\$150,000	5-13-19
Workers Compensation	Statutory	7-1-19

**WESTERN FLEMING WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Four Fiscal Years**

	2018	2017	2016	2015
District's proportion of the net pension liability	0.007263%	0.007263%	0.00726%	0.00536%
District's proportionate share of the net pension liability (asset)	\$ 425,126	\$ 357,607	\$230,489	\$ 238,000
District's covered employee payroll	\$ 254,958	\$ 237,820	\$ 198,472	\$175,108
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	166.74%	150.36%	116.13%	135.91%
Plan fiduciary net position as a percentage of the total pension liability	872.58%	1085.35%	1706.12%	1613.81%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The measurement date of the net pension liability is one year preceding the fiscal year of the District.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**WESTERN FLEMING WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS- PENSION
Last Five Fiscal Years**

	2018	2017	2016	2015	2014
Contractually required employer contribution	\$ 38,632	\$ 24,670	\$ 20,635	\$ 15,279	\$ 31,732
Contributions relative to contractually required employer contribution	38,632	24,670	20,635	15,279	31,732
Contribution deficiency (excess)	\$.	\$.	\$.	\$.	\$.
District's covered employee payroll	\$ 254,958	\$ 216,620	\$ 187,244	\$ 184,205	\$ 169,801
Employer contributions as a percentage of covered-employee payroll	15.15%	11.39%	11.02%	8.29%	18.69%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

**WESTERN FLEMING WATER DISTRICT
 REQUIRED SUPPLEMENTARY SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 Last Two Fiscal Years**

	2018	2017
District's proportion of the net OPEB liability	0.007263%	0.00%
District's proportionate share of the net OPEB liability (asset)	\$ 146,011	\$ 114,527
District's covered employee payroll	\$ 254,958	\$ 216,620
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	57.26%	52.87%
Plan fiduciary net position as a percentage of the total pension liability	2540.61%	unavailable

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

- The assumed investment rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.5% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%.

Contractually required employer contributions exclude the portion of contributions paid to GERS but allocated to the pension fund of the GERS. The above contributions only include those contributions allocated directly to the GERS insurance fund.

The measurement date of the net OPEB liability is one year preceding the fiscal year of the District.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the Company's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**WESTERN FLEMING WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - OPEB
Last Five Fiscal Years**

	2018	2017	2016	2015	2014
Contractually required employer contribution	\$ 8,365	\$ 8,200	\$ 8,152	\$ 8,203	\$ 8,198
Contributions relative to contractually required employer contribution	8,365	8,200	8,152	8,203	8,198
Contribution deficiency (excess)	\$ -	\$	\$	\$	\$
District's covered employee payroll	\$ 254,958	\$ 216,620	\$ 187,244	\$ 184,205	\$ 169,801
Employer contributions as a percentage of covered-employee payroll	3.2%	3.7%	4.3%	4.4%	4.8%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS OPES fund.

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

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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, 2018, 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 21, 2019.

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, 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 21, 2019

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.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, 2018, 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 21, 2019, 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 21, 2019

WESTERN FLEMING COUNTY WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2018

Status of Prior 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.

Status: This has not been implemented. Will carry to 2018-1.

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.

Status: This has not been implemented. Will carry to 2018-2.

WESTERN FLEMING COUNTY WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2018

Current Year Management Points

2018-1 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.

2018-2 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.

2018-3 KIA Loan Reserve account underfunded by \$6,104.

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 \$6,104

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