

Western Lewis Rectorville Water & Gas District

Maysville, Kentucky

Regular Audit

January 1, 2018 through December 31, 2018

Fiscal Years Audited Under GAGAS: 2018



CAUDILL & ASSOCIATES, CPA, PLLC

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Member American Institute of Certified Public Accountants
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Member American Institute of Certified Public Accountants – Government Audit Quality Center



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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Western Lewis-Rectorville Water & Gas District
Maysville, KY 41056

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standard 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 judgement, 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 statement 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities of the Western Lewis-Rectorville Water & Gas District of Maysville, Kentucky, as of December 31, 2018 and 2017 and the changes in financial position and cash flows, thereon for the years ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Management has omitted the Management's Discussion and Analysis and pension supplemental reporting that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Lewis-Rectorville Water & Gas District of Maysville, Kentucky basic financial statements. The Statement of Revenues and Expenses and Supplemental Information required by Rural Development are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statement of Revenues and Expenses 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 statement of revenues and expenses 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 July 19, 2019 on our consideration of Western Lewis-Rectorville Water & Gas District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Caudill & Associates, CPA, PLLC

Caudill & Associates, CPA

July 19, 2019

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2018

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents - Unrestricted	\$ 56,670	\$ 101,255
Cash and Cash Equivalents - Restricted	204,373	281,247
Accounts Receivable (Less Allowance for Doubtful Accounts of \$6,300)	113,121	100,133
Inventory	41,443	47,158
Unbilled Receivables	48,702	53,653
Prepaid Expenses	13,043	10,609
TOTAL CURRENT ASSETS	477,352	594,055
PROPERTY, PLANT AND EQUIPMENT		
Land	52,914	52,914
Utility Plant and Equipment	13,833,422	13,794,539
Amortized Expense	7,095	7,095
Construction in Progress	2,638	-
	13,896,069	13,854,548
Less Accumulated Amortization	(2,838)	(1,419)
Less Accumulated Depreciation	(5,646,419)	(5,276,215)
NET PROPERTY, PLANT AND EQUIPMENT	8,246,812	8,576,914
OTHER ASSETS		
Deferred outflows - OPEB	25,587	-
Deferred outflows - pension resources	176,599	219,947
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 8,926,350	\$ 9,390,916
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 60,517	\$ 50,181
Accrued Taxes	9,573	9,778
Accrued Interest Payable	16,527	17,029
Accrued Wages and Sick Leave	9,770	11,756
Customer Deposits and Budget Billings	88,453	116,590
Current Portion of Loans	41,712	41,401
Current Portion of Long-Term Debt	67,500	64,500
TOTAL CURRENT LIABILITIES	294,052	311,235
LONG-TERM DEBT		
Loans Payable - KIA	782,853	824,565
Bonds Payable, less Current Portion	2,058,500	2,126,000
Net OPEB Liability	128,119	-
Net Pension Liability	439,476	466,040
TOTAL LIABILITIES	3,703,000	3,727,840
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - OPEB	35,349	-
Deferred inflows - pension resources	57,776	45,345
TOTAL DEFERRED INFLOWS OF RESOURCES	93,125	45,345
NET POSITION		
Investment in Capital Assets, Net of Related Debt	5,337,959	5,561,849
Restricted Net Assets	204,373	281,247
Unrestricted Net Assets	(412,107)	(225,365)
TOTAL NET POSITION	5,130,225	5,617,731
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 8,926,350	\$ 9,390,916

The accompanying notes are an integral part of these financial statements

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

OPERATING REVENUES	2018	2017
Water and Gas Sales:		
Residential	\$ 923,376	\$ 884,984
Commercial	114,125	109,380
Service Charges and Other Revenue	62,904	59,141
Total Operating Revenues	1,100,405	1,053,505
OPERATING EXPENSES		
Salaries & Wages - Employees	264,194	255,688
Salaries & Wages - Officers & Directors	27,600	28,500
Retirement Expense	55,990	85,224
Purchased Water and Gas	239,106	213,585
Purchased Power	50,419	51,617
Chemicals & Salt	30,117	14,958
Materials & Supplies	22,720	38,741
Professional Fees	32,760	35,350
Maintenance Expense	74,755	76,952
Rental Expense	552	207
Insurance	113,938	95,962
Depreciation and Amortization	371,623	345,885
Utilities and Telephone	6,431	6,895
Office and Program Expense	52,038	73,748
Taxes Other Than Income	22,912	22,462
Total Operating Expenses	1,365,155	1,345,774
OPERATING INCOME/(LOSS)	(264,750)	(292,269)
NON-OPERATING INCOME (EXPENSES)		
Interest Income	372	469
Gain/Loss on Sale/Disposal of Asset	-	31,247
Tollesboro Sanitation District No. 1 Fee	11,732	13,372
Interest Expense	(106,192)	(108,282)
Net Non-Operating Revenues (Expenses)	(94,088)	(63,194)
Income (Loss) Before Capital Contributions	(358,838)	(355,463)
Capital Grants	-	-
Customer Tap Fees	21,221	25,649
Change in Net Position	(337,617)	(329,814)
NET POSITION, BEGINNING OF YEAR	5,617,731	5,947,545
Effect of adoption of GASB 75	(149,889)	-
Net position - beginning of year, as restated	5,467,842	
NET POSITION, END OF YEAR	\$ 5,130,225	\$ 5,617,731

The accompanying notes are an integral part of these financial statements

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 1,064,231	\$ 1,076,350
Payments to Suppliers	(671,621)	(709,690)
Payments to Employees	(293,780)	(283,583)
Net Cash Provided by Operating Activities	98,830	83,077
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	372	469
Net Cash Provided by Investing Activities	372	469
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Capital Debt	(105,901)	(81,584)
Purchases of Capital Assets	(38,883)	(2,179,171)
Amortized Assets	-	(7,095)
Construction in Progress	(2,638)	1,583,794
Gain/Loss on Disposal of Asset	-	31,247
Deferred Gain/Loss	-	310,442
Contributed Capital-Tap Fees	21,221	25,649
Contributed Capital - Grants	-	185,836
Net Receipts from Sanitation District No. 1	11,732	13,372
Interest Paid on Capital Debt	(106,192)	(108,282)
Net Cash Used in Capital and Financing Activities	(220,661)	(225,792)
NET INCREASE/(DECREASE) IN CASH	(121,459)	(142,246)
Cash and Cash Equivalents - At Beginning of Year	382,502	524,748
CASH AND CASH EQUIVALENTS - AT END OF YEAR	\$ 261,043	\$ 382,502
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	(264,750)	(292,269)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation & Amortization Expense	371,623	345,885
Change in Assets and Liabilities:		
Accounts Receivable, Net	(12,988)	14,501
Inventory	5,715	(5,429)
Unbilled Receivables	4,951	(2,605)
Prepaid Expense	(2,434)	278
Accounts Payable and Other Payables	9,629	(38,882)
Deferred Outflows - OPEB	(25,587)	-
Deferred Outflows - pension resources	43,348	(146,366)
Deferred Inflows - OPEB	35,349	-
Deferred Inflows - pension related	12,431	33,681
Net OPEB Liability	(21,770)	-
Net Pension Liability	(26,564)	162,729
Customer Deposits & Budget Billings	(28,137)	10,949
Accrued Wages and Sick Leave	(1,986)	605
Net Cash Provided by Operating Activities	\$ 98,830	\$ 83,077

The accompanying notes are an integral part of these financial statements

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

The Western Lewis-Rectorville Water & Gas District (the District), was incorporated as a public body in 1961 under Chapter 74 of Kentucky Revised Statutes. The Kentucky Public Service Commission presently regulates the District. A description of the District's significant accounting policies follows:

Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations 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 Lewis-Rectorville Water & Gas 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.

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 financial statements of the District are prepared using the economic resources measurement focus for the proprietary fund financial statements. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Basic of Accounting

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operation 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 management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is valued at the lower of cost or market.

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Depreciation is applied on the straight-line method over estimated useful life of the asset, using rates determined by reference to Utility Standards Rates (NARUC). The District's capitalization policy is to capitalize expenditures costing \$5,000 or more with an estimated useful life of one year or more.

Unbilled Revenue

The District records revenue as billed to its customers on a 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 expenses as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 76.020, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements 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 the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of the revenues and expenditures during the reporting period. Actual results could differ from estimated amounts.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Position

Net position represents the difference between assets and liabilities. 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 are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restriction imposed by creditors, grantors, laws or regulation of other governments. 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.

Note 2 - Cash and Investments

The cash balances at December 31, 2018 were comprised of the following:

Working Funds - Checking	\$47,257
Unrestricted Funds - Savings	<u>42,031</u>
	<u>\$89,288</u>

The District is required to maintain special deposit accounts for customer deposits and long-term debt obligations that restrict use of debt amortization and capital improvements as follows:

Customer Deposits	\$79,027
Bond and Interest Sinking Fund	22,104
Depreciation Fund	103,766
Construction Fund	566
	<u>\$205,463</u>

Note 3 - 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 not have a deposit policy for custodial credit risk. As of December 31, 2018, \$294,751 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$44,751
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WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Note 4 - Capital Assets

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

Business-Type Activities		Balance			Balance Dec. 31, 2018
		Jan. 1, 2018	Additions	Deductions	
Cost:					
Land		\$ 52,914	\$ -	\$ -	\$ 52,914
Plant in Service:					
Water		13,018,623	38,883	-	13,057,506
Gas		447,162	-	-	447,162
Other Depreciable Assets		328,754	-	-	328,754
Construction in Progress		-	2,638	-	2,638
Totals at historical cost		13,847,453	41,521	-	13,888,974
Less accumulated depreciation:					
Plant in Service:					
Water		4,816,717	339,155	-	5,155,872
Gas		293,346	5,083	-	298,429
Other Depreciable Assets		166,152	25,966	-	192,118
Total accumulated depreciation		5,276,215	370,204	-	5,646,419
Business-Type Activities Capital Assets - Net		\$ 8,571,238	\$ (328,683)	\$ -	\$ 8,242,555

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

Business-Type Activities		Balance			Balance Dec. 31, 2017
		Jan. 1, 2017	Additions	Deductions	
Cost:					
Land		\$ 52,914	\$ -	\$ -	\$ 52,914
Plant in Service:					
Water		10,998,916	2,019,707		13,018,623
Gas		326,169	120,993		447,162
Other Depreciable Assets		290,283	38,471		328,754
Construction in Progress		1,583,794	-	(1,583,794)	-
Totals at historical cost		13,252,076	2,179,171	(1,583,794)	13,847,453
Less accumulated depreciation:					
Plant in Service:					
Water		4,503,784	312,933		4,816,717
Gas		288,185	5,161		293,346
Other Depreciable Assets		139,780	26,372		166,152
Total accumulated depreciation		4,931,749	344,466	-	5,276,215
Business-Type Activities Capital Assets - Net		\$ 8,320,327	\$ 1,834,705	\$ (1,583,794)	\$ 8,571,238

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Note 5 - Reserves

The Western Lewis-Rectorville Water & Gas District is required to comply with the bond agreement of the 2007, 2001, 1988 and 1996 bond issues as follows:

A. Sinking Fund

On a monthly basis, the district is required to set aside an amount into a special account known as the “Western Lewis-Rectorville Water & Gas District System Bond and Interest Sinking Fund”. The amount to be set aside each month shall be sums not less than the following respective amounts:

- (1) A sum equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to the Bond Issues.
- (2) A sum equal to one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the sinking fund reserve was \$22,104 at December 31, 2018 after payment of the November 1 debt service. Deposits were made to the Sinking fund on a monthly basis as required in (1) and (2).

B. Depreciation Fund

The District is required to deposit \$320 each month into the Depreciation Fund Account as well as the proceed from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and shall be withdrawn or used, upon appropriate certification to Rural Development, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. The District had set aside \$103,766. The required depreciation reserve was \$150,000 and the District had resumed the monthly deposits to meet this requirement.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Note 6 – Recently Issued Accounting Pronouncements

The District has implemented the following new accounting pronouncements, where applicable:

- GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for the District’s fiscal year ending June 30, 2018.
- GASB Statement No. 81 – Irrevocable Split-Interest Agreements, effective for the District’s fiscal year ending June 30, 2018.
- GASB Statement No. 85 – Omnibus 2017, effective for the District’s fiscal year ending June 30, 2018.
- GASB Statement No. 86 – Certain Debt Extinguishment Issues, effective for the District’s fiscal year ending June 30, 2018.

The adoption of GASB Statement Numbers 81, 85, and 86 did not have an impact on the District’s financial position or results of operations. The adoption of GASB Statement No. 75 resulted in a statement of net position in the Government-Wide Financial Statements of (\$1,950,118) as discussed in Note 9.

The District will adopt the following new accounting pronouncements in future years:

- GASB Statement No. 83 – Certain Asset Retirement Obligations, Effective for the District’s fiscal year ending June 30, 2019.
- GASB Statement No. 84 – Fiduciary Activities, effective for the District’s fiscal year ending June 30, 2020.
- GASB Statement No. 87 – Leases effective for the District’s fiscal year ending June 30, 2021.

Note 7- Pension Plan

The 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 separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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 December 31, 2018, plan members were required to contribute 5.00% of wages. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statue Section 61.565(3), 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 contributions rates are necessary to satisfy requirements

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Note 7 - Pension Plan (Continued)

determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, participating employers contributed 19.18% for January to June and 21.48% for July through December of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2018	\$25,898	100%
2017	\$33,337	100%
2016	\$34,125	100%

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:

At December 31, 2018, the Organization reported a net pension liability of \$439,476 from its participation in the CERS non-hazardous plan. The District does not participate in the CERS hazardous plan. The liabilities were measured at 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 Organization's proportion of the net pension liability was based on a projection of the Organization's long-term share of contributions to the pension plans relative to the projected contributions of all participating members, actuarially determined.

For the year ended December 31, 2018, the Organization's reported CERS non-hazardous pension expense of \$29,215. For the year ended December 31, 2018, the District recognized deferred outflows of resources, CERS non-hazardous, \$175,599, and deferred inflows of resources, CERS non-hazardous, \$57,776.

The District previously reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$12,431. This will be recognized as pension expense as follows:

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Note 7 - Pension Plan (Continued)

Year	Total
2019	\$ 2,486
2020	2,486
2021	2,486
2022	2,486
2023	2,487
	\$ 12,431

Actuarial Methods and Assumptions - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2017 and 2016. The financial reporting actuarial valuation as of June 30, 2017 and 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

	2018		2017	
	Nonhazardous		Nonhazardous	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	of Resources	of Resources	of Resources	of Resources
Differences between				
expected and actual experience	\$ 12,886	\$ -	\$ 5,822	\$ -
Changes of assumptions	42,950	-	85,997	-
Net difference between projected				
and actual earnings on pension				
plan investments	56,234	-	54,351	-
Changes in proportion and				
differences between District				
contributions and proportionate				
share of contributions	64,529	57,776	73,777	45,345
District contributions subsequent to				
the measurement date	-	-	-	-
Total	\$ 176,599	\$ 57,776	\$ 219,947	\$ 45,345

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Note 7 - Pension Plan (Continued)

- Valuation date, June 30, 2016
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost Method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 28 years
- Asset Valuation method – 5 year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation
- Investment rate of return – 7.50%

The rates of mortality for the period after service retirement are according to the RP-200 Combined Mortality Table with Scale BB to 2013.

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CER’s investment consultant, are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Nominal Return
Combined Equity	44.0%	4.50%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	9.00%
Absolute Return (Diversified Inflation Strategies)	10.0%	4.25%
Private Equity	10.0%	6.50%
Cash Equivalent	2.0%	1.500%
	<u>100.0%</u>	

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
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Note 7 - Pension Plan (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate or return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows or resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer’s proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2016 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

The following presents the District’s proportionate share of net pension liability calculated using the discount rate of 6.25% as well as the District’s share if calculated using a rate 1% higher and 1% lower.

	2018		
	1%	Current	1%
	Decrease	Discount Rate	Increase
	5.25%	6.25%	7.25%
District's proportionate share of net nonhazardous liability	\$ 553,255	\$ 439,476	\$ 344,150
	2017		
	1%	Current	1%
	Decrease	Discount Rate	Increase
	5.25%	6.25%	7.25%
District's proportionate share of net nonhazardous liability	\$ 587,778	\$ 466,040	\$ 364,208

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

There were no payables to the pension plan at December 31, 2018 and 2017.

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OPEB PLAN

Plan description – Substantially all full-time employees of the District are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS) – a cost sharing multiple-employer defined benefit OPEB plan. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520.

CERS issues a publicly available financial report include in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (800) 928-4646 or at <https://kyret.ky.gov>.

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the KRS Insurance Fund. The following information is about the KRS plans:

Medical Insurance Plan

Plan description – In addition to the OPEB benefits described above, KRS provides post-employment healthcare benefits to eligible members and dependents. The KRS Insurance benefit is a cost-sharing multiple employer defined benefit plan.

Benefits provided – Benefits under the plan will vary based on years of service and other factors as fully described in the plan documents.

Contributions – In order to fund the post-retirement healthcare benefit, participants hired on or after September 1, 2008 contribute 1% of total compensation subject to contribution for non-hazardous and hazardous duty positions. Also, the premiums collected from retirees as described in the plan documents and investment interest help meet the medical expenses of plan.

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

At June 30, 2018, the District reported a liability of \$128,119 for its proportionate share of the collective net CERS non-hazardous OPEB liability. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective 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 employers, actuarially determined. At June 30, 2018, the District's proportion was .007216% of non-hazardous employees.

The amount recognized by the District as its proportionate share of the OPEB liability was as follows:

District's proportionate share of the net OPEB liability \$128,119.

For the year ended June 30, 2018, the District recognized OPEB expense of \$14,200. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
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OPEB PLAN (Continued)

	2018	
	Nonhazardous	
	Deferred Outflows	Deferred Inflows
	of Resources	of Resources
Differences between expected and actual experience	\$ -	\$ 14,931.00
Changes of assumptions	25,587	296
Net difference between projected and actual earnings on pension plan investments	-	8,825.00
Changes in proportion and differences between District contributions and proportionate share of contributions	-	11,297
District contributions subsequent to the measurement date	-	-
Total	\$ 25,587	\$ 35,349

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

GASB 75	
Year	Total
2019	\$ (1,689)
2020	(1,689)
2021	(1,689)
2022	25
2023	(3,253)
Thereafter	(1,465)
	\$ (9,760)

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
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OPEB PLAN (Continued)

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

Investment rate of return	7.50%
Projected salary increases	4.00% average
Inflation rate	3.25%
Real Wage Growth	4.00%
Wage Inflation	3.25%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.
Municipal Bond Index Rate	3.56%
Discount Rate	5.84% non-hazardous, 5.96% hazardous

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with projection scale BB and set back one year for females. The RP-2000 Disables Mortality Table set back four years for males is used for the period after disability retirement. The remaining actuarial assumptions (e.g. initial per capita costs, health care costs trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are development for each major asset class. These ranges are –combined by weighing the expected future real rates of return by the target-asset allocation percentage

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRS’s investment consultant, are summarized in the following table:

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OPEB PLAN (Continued)

	CERS	Long Term Expected
	Target	Nominal
Asset Class	Allocation	Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Banks	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
	100.00%	

Discount rate – The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous and 5.96% for hazardous. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be at statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

	2018		
	1%	Current	1%
	Decrease	Discount Rate	Increase
	5.84%	4.84%	6.84%
District's proportionate share of net nonhazardous liability	\$ 128,119	\$ 166,406	\$ 95,505

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separate issued KRS financial report.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Note 8 – Long Term Debt – The following is a summary of changes as of December 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance
\$150,000, 1988 Series A Rural Development Bonds, payable in semi-annual installments plus interest at 5.00%, due November 1, 2027	\$ 71,000	\$ -	\$ 6,000	\$ 65,000
\$971,000, 1996 Series A Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2036	698,000	-	23,000	675,000
\$750,000, 1996 Series B Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2036	522,000	-	18,000	504,000
\$333,000, 2001 Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2041	267,500	-	6,500	261,000
\$712,000, 2007 Rural Development Bonds, payable in semi-annual installments plus interest at 4.375%, due November 1, 2047	632,000	-	11,000	621,000
	\$ 2,190,500	\$ -	\$ 64,500	\$ 2,126,000
Less: Current Maturities	64,500			67,500
Totals	<u>\$ 2,126,000</u>			<u>\$ 2,058,500</u>

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

	Principal	Interest
2019	67,500	95,219
2020	70,000	92,167
2021	72,500	89,002
2022	77,500	85,725
2023	80,000	82,219
2024-2028	452,500	372,404
2029-2033	531,500	245,420
2034-2038	464,000	119,317
2039-2043	202,500	48,758
2044-2046	108,000	9,538
	<u>\$ 2,126,000</u>	<u>\$ 1,239,769</u>

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
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Note 9 – Loans Payable – The following is a summary of long term debt outstanding for the year ending December 31, 2018:

Kentucky Infrastructure Authority	
Interest Rate 0.75%	
Semi-annual payments – 06/01 and 12/01	\$824,565
Less: Current Maturities	41,712
Total	\$782,853

The original amount of the loan was \$1,266,500. Of this amount 30% of \$379,950, was forgiven.

The following is a schedule of long-term debt maturities:							
				Principle		Interest	
		2019	\$	41,712	\$	6,106	
		2020		42,025		5,793	
		2021		42,341		5,477	
		2022		42,659		5,159	
		2023		43,630		4,841	
		2024-2028		218,153		19,364	
		2029-2033		226,472		11,356	
		2034-2038		167,573		3,583	
			\$	824,565	\$	61,679	

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Note 10 - Subsequent Events

Consideration of the subsequent events for inclusion and disclosure in these financial statements was made through the date of the report, which is the date that the financial statements were available to be issued, and would include all relevant material circumstances and events. No subsequent events were deemed necessary to disclose.

Note 11 - Beginning Net Position Restatement

Government wide financial statements beginning net position was reduced \$149,889 to reflect the District's actuarially determined beginning balance portion of CERS OPEB liability in accordance with GASB Statement No. 75.