MADISON COUNTY UTILITIES DISTRICT

AUDITED FINANCIAL STATEMENTS

December 31, 2017

Prepared by:

White & Associates PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475
Phone 859.624.3926
Fax 859.625.0227

TABLE OF CONTENTS

White & Associates, PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the Madison County Utilities District
Richmond, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (enterprise fund) of the Madison County Utilities District (District), as of and for the year ended 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of the District's proportionate share of the net pension liability, and schedule of contributions information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the remaining required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements is required by the Governmental Accounting Standards Board, who consider 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

White & Associates PSC

White & Associates, PSC
Richmond, Kentucky
April 27, 2018

Madison County Utilities District
STATEMENT OF NET POSITION
December 31, 2017

		2017
ASSETS		
Current assets:		
Cash and cash equivalents	$	178,445
Short-term investments		602,121
Accounts receivable		364,176
Inventory		153,693
Prepaid expenses		22,242
Total current assets		1,320,677
Noncurrent assets:		
Restricted cash and cash equivalents		998,094
Restricted investments		391,788
Capital assets not being depreciated		384,262
Capital assets, net of accumulated depreciation		16,026,340
Total noncurrent assets		17,800,484
Deferred outflows of resources:		
Deferred outflows of resources related to pensions		293,606
Total Assets	$	19,414,767
LIABILITIES		
Current liabilities:		
Accounts payable	$	314,408
Accrued liabilities:		
Payroll taxes		13,990
Other		13,688
Interest		32,336
Customer deposits, payable from restricted assets		101,797
Long-term debt:		
KIA Loans, due within one year		300,871
Bonds payable, due within one year and payable from restricted assets (net of unamortized premium)		285,076
Total current liabilities		1,062,166
Noncurrent liabilities:		
Net pension liability		1,040,878
Compensated absences		120,777
Long-term debt, due beyond one year (net of unamortized premium)		4,511,007
Total noncurrent liabilities		5,672,662
Total Liabilities		6,734,828
NET POSITION		
Net investment in capital assets		11,313,648
Restricted for:		
Future projects		2,530
Customer deposits		47,989
Capital improvements		272,399
Debt service		1,066,964
Unrestricted (Deficit)		(23,591)
Total net position		12,679,939
Total liabilities and net position	$	19,414,767

The accompanying notes are an integral part of these financial statements.

Madison County Utilities District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2017

		2017
OPERATING REVENUES		
Water sales	$	4,318,312
Other sales:		
Late charges		180,017
Miscellaneous		76,182
Total operating revenues		4,574,511
OPERATING EXPENSES		
Salaries and wages		575,850
Employee benefits		272,507
Payroll taxes		44,178
Purchased water		2,277,066
Dues & subscription		14,426
Office expenses		164,952
Accounting & legal		57,486
Repairs & maintenance		164,408
Truck & equipment expense		48,193
Insurance		33,840
Utilities		49,222
Depreciation		596,392
Bad debt expense		-
Miscellaneous		402
Total operating expenses		4,298,922
OPERATIONS INCOME (LOSS)		275,589
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		27,111
Miscellaneous income		61,716
Interest expense		(127,158)
Total nonoperating revenues (expenses)		(38,331)
INCOME (LOSS) BEFORE CONTRIBUTIONS		237,258
Capital contributions		182,407
Total capital contributions		182,407
CHANGE IN NET POSITION		419,665
NET POSITION, BEGINNING		12,260,274
NET POSITION, ENDING	$	12,679,939

The accompanying notes are an integral part of these financial statements.

Madison County Utilities District
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

		2017
Cash flows from operating activities:		
Cash received from customers and other sources	$	4,576,765
Cash payments to suppliers for goods and services		(2,765,282)
Cash payments for employees and benefits		(809,303)
Net cash provided (used) by operating activities		1,002,180
Cash flows from capital and related financing activities:		
Purchases and construction of capital assets		(589,658)
Proceeds from capital contributions		182,407
Other cash flows		61,716
Principal payments		(566,957)
Interest paid		(127,158)
Net cash provided (used) by capital and related financing activities		(1,039,650)
Cash flows from investing activities:		
Investment income received		27,111
Net cash provided (used) by investing activities		27,111
Net increase (decrease) in cash and cash equivalents		(10,359)
Cash and cash equivalents, beginning of year		1,186,898
Cash and cash equivalents, end of year	$	1,176,539
Reconciliation of total cash and cash equivalents to the statement of net position:		
Unrestricted	$	178,445
Restricted		998,094
Total cash and cash equivalents	$	1,176,539
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	275,589
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation/Amortization		596,392
Actuarial pension expense		65,313
(Increase) decrease in assets:		
Accounts receivable		1,984
Inventory		6,854
Prepaid expenses		(1,206)
Increase (decrease) in liabilities:		
Accounts payable		35,219
Accrued liabilities		4,771
Customer deposits		(655)
Compensated absences		17,919
Net cash provided (used) by operating activities	$	1,002,180

The accompanying notes are an integral part of these financial statements.

NOTE 1 – Reporting entity and significant accounting policies

(a) *Description of the reporting entity*

Madison County Utilities District (District) was formed in 1997 by the merger of the Kingston-Terrill, Waco, and White Hall water districts. The purpose of the District is to provide potable drinking water to residents and businesses in Madison County. As of December 31, 2017, the District had 10,833 customers. The District is overseen by a board of commissioners appointed by the County Judge/Executive, with the approval of the Madison County Fiscal Court. The District is self-supporting through the charges it makes for water sold. The Madison County Fiscal Court makes no financial contribution to the District nor do they have any management function with the District. The District is subject to the Public Service Commission of the Commonwealth of Kentucky water regulations issued by the Division of Water. The District purchases treated water, ready for distribution, from Richmond Utilities.

(b) *Basis of accounting*

The District operates and reports as an enterprise utilizing the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities.

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.

(c) *Applicable accounting standards*

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for financial statements of state and local governments. The District has elected to follow all pronouncements of the GASB.

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 an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(d) *Restricted cash and investments*

Restricted cash and investments represent amounts held in trust at financial institutions and a brokerage division of a financial institution and are set aside for debt payments, reserve, capital improvements and future projects as required by the bond ordinance, other loan agreements and grants.

(e) *Investments*

Investments (brokered certificate of deposits) are reported at fair value which is determined using selected bases. Short-term investments (non-brokered certificate of deposits) are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

(f) *Accounts receivable*

The District accounts for the billings to customers as accounts receivable. Management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If accounts receivable become uncollectible, they will be charged-off when that determination is made.

(g) *Inventory*

The District maintains a detailed inventory of supplies needed to maintain the water infrastructure. Inventory is stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

(h) *Prepaid expenses*

Payments made by the District that benefit periods beyond December 31st are classified as prepaid expenses. A current asset is recorded at the time of purchase and an expense is made per the consumption method. The prepayment of expenses is for the numerous insurances required on behalf of the District's employees' and its infrastructure.

(i) *Capital assets*

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold for capital assets is $2,500.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Transmission main lines	50-75 years
Meters and settings	20-25 years
Hydrants and flush valves	40-50 years
Buildings	40 years
Vehicles	3-5 years
Equipment	7-20 years
Office furniture, fixtures	5-10 years

(j) *Customer deposits*

Deposits are required by the District for each customer to receive services. The deposits are maintained by the District and returned when services are no longer used or other qualifying event by the District's policy.

(k) *Compensated absences*

Regular employees of the District earn vacation and sick leave days per year. Vacation days are accrued up to a maximum of 240 hours or 30 days and payable upon termination or retirement. Sick leave days are accrued up to a maximum of 960 hours or 120 days and payable upon retirement/death.

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation balance since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Under GASB Statement No. 16, a liability is record for unused sick leave balances only to the extent that it is probable that the unused balances will result in retirement/ death payments. This is estimated by including in the liability the unused balances of employees who are expected to become eligible to receive retirement/death benefits as a result of continuing their employment with the District.

Upon termination or retirement for vacation or retirement/death for sick leave, employees are entitled to receive compensation at their current base salary for all unused vacation and sick leave.

(l) *Long-term debt*

In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premiums or discounts. Bond issuance costs are reported as an expense of the current period. Refunding of debt may result in deferred gains or losses and are reported as deferred inflows or outflows of resources. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense using the straight-line method.

(m) *Net investment in capital assets*

Net investment in capital assets is the net amount of the capital assets less the amounts payable for long-term debt financing those capital assets.

(n) *Statement of cash flows*

For the purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, restricted cash and cash equivalents, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and cash equivalents and restricted cash and cash equivalents.

(o) *Use of estimates*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(p) *Capital contributions*

Capital contributions include the amounts paid by state and local governments that arise from contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

(q) *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments, if any, are reported at fair value.

NOTE 2 – Budgetary data

The District's Board of Commissioners receives and approves an annual budget from management each calendar year fulfilling the requirement to prepare an annual budget as required by all SPGE's for the Kentucky Department of Local Government.

NOTE 3 – Cash and investments

Cash and investments as of December 31, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Unrestricted cash and cash equivalents	$ 178,445
Unrestricted investments	602,121
Restricted cash and cash equivalents	998,094
Restricted investments	391,788
Total cash and investments	$ 2,170,448

Cash and investments as of December 31, 2017 consist of the following:

Cash on hand	$ 813
Deposits with financial institutions	1,175,726
Certificates of deposit	993,909
Total cash and investments	$ 2,170,448

Custodial risk

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of a another party.

As of December 31, 2017, the District's cash and investments were collateralized or uncollateralized as follows:

		Bank Balance				
KY Bank		**Demand**		**Time**		**Totals**
FDIC	$	250,000	$	391,788	$	641,788
Securities Pledged		644,670		-		644,670
Bank balance	$	894,670	$	391,788	$	1,286,458

Central Bank & Trust		**Demand**		**Time**		**Totals**
FDIC	$	250,000	$	-	$	250,000
Uncollateralized		22,399		-	$	22,399
Bank balance	$	272,399	$	-	$	272,399

First Trust Bank		**Demand**		**Time**		**Totals**
FDIC	$	-	$	250,000	$	250,000
Uncollateralized		-		352,121	$	352,121
Bank balance	$	-	$	602,121	$	602,121

	Book Balance
Cash and Equivalents	1,176,539
Investments	993,909
Total carrying amount	2,170,448

Fair Value Measurements

For investments (brokered certificate of deposit), the District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs reflect prices that are based on a similar observable assets either directly or indirectly, which may include inputs in a market that are not considered to be active; Level 3 inputs reflect prices based upon unobservable sources. As of December 31, 2017, the District's recurring fair value measurement of their brokered certificate of deposit is valued using Level 1.

			Investment Maturities (Years)		
Investments	**Rating**	**Fair Value**	**Less Than 1**	**1-10**	**10 or More**
Brokered certificate of deposit	N/R	$ 391,788	$ -	$ 391,788	$ -
Total		391,788	-	391,788	-
Non-brokered certificate of deposit		602,121			
Total Investments		$ 993,909			

Interest rate risk

The District does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

In accordance with the District's investment policy, the District may invest in the following:

Certificates of Deposit
Guaranteed Investment Contracts
U.S. Treasury Obligations

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. 60% of the District's investments are invested in non-brokered certificate of deposit and 40% of the District's investments are invested in brokered certificate of deposit.

Risks and uncertainties

The District invests in various certificates of deposit. Brokered certificates of deposit are exposed to various risks such as interest rate, credit and market risks. Due to the level of risk associated with certain brokered certificates of deposit, it is at least reasonably possible that changes in the values of brokered certificates of deposit will occur in the near term and that such changes could materially affect the account balances and the amounts reported in the financial statements.

NOTE 4 – Capital assets

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

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017
Land	$ 378,061	$ -	$ -	$ 378,061
Construction in Progress	87,342	190,773	(271,914)	6,201
Capital assets not being depreciated	465,403	190,773	(271,914)	384,262
Buildings	720,352	-	-	720,352
Water System	24,219,707	597,245	-	24,816,952
Vehicles and Equipment	410,284	42,282	(3,650)	448,916
	25,350,343	639,527	(3,650)	25,986,220
Accumulated Depreciation	(9,367,138)	(596,392)	3,650	(9,959,880)
Capital assets, net of accumulated depreciation	15,983,205	43,135	-	16,026,340
Total capital assets	$ 16,448,608	$ 233,908	$ (271,914)	$ 16,410,602

NOTE 5 – Long-term debt

Series 2008 Refunding Revenue Bonds

Refunding bonds were dated May 1, 2008 in the amount of $3,600,000 and were used to retire or defease the Utility District Refunding Revenue Bonds, Series 1997 and interim financing for the Series 2008 project. The bonds are due in February and August of each year until they mature in February 1, 2022. The interest is a variable rate increasing annually per Bond Agreement from 2.30% to 4.25%. A bond premium is being amortized over the life of the bonds using the straight-line method and as of December 31, 2017 the premium balance was $23,344. The Series 2008 Bonds pursuant to the General Bond Resolution are secured by and payable solely from the pledged receipts derived from the collection of rates, rentals and charges for the services rendered by the District's system.

The bonds require the District, under the resolution of the waterworks revenue bond issue, to maintain certain restricted cash accounts. The resolution provides for all revenue received to be deposited on a timely basis, in a water revenue cash account with transfers being made to the following accounts:

Operations and Maintenance Accounts – monthly transfers of a sum sufficient to meet the current expenses of operating and maintaining the system. The balance in this fund shall not exceed an amount required to cover anticipated expenditures for a two-month period pursuant to the annual budget.

Restricted Bond and Interest Sinking Account – monthly transfers of a sum equal to one-sixth (or larger as necessary) of the next succeeding interest installment and one-twelfth (or larger as necessary) of the next principal installment and is recorded as restricted cash.

Restricted Reserve Account – the debt service reserve account was fully funded with the Series 2008 Refunding Revenue Bonds and is recorded as restricted investments. The maximum restricted reserve requirement is $344,025.

Restricted Excess Funds – there shall be transferred within sixty days after the end of each calendar year, the balance of excess funds in the Revenue Account to the Restricted Depreciation Reserve Account for the purpose of paying the cost of extensions, additions and/or improvements to the project and is recorded as restricted cash. The maximum restricted depreciation reserve is $123,500.

The District is in compliance with all covenants of the Bond Agreement.

Kentucky Infrastructure Authority (KIA) Loans

The District holds various assistance agreements with the KIA maturing June 1, 2025 through June 1, 2035 with interest rates between 1%-3%. Each KIA loan is required to maintain a Maintenance and Replacement Reserve account in which it will deposit an amount equal to the amount set forth in the Project Specifics at the times set for in the Project Specifics. Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project. As of December 31, 2017 the balance of the account is $376,846. The KIA loans pursuant to the loan agreements are secured by and payable solely from the pledged receipts derived from the collection of rates, rentals and charges for the services rendered by the District's system.

The District is in compliance with all covenants of the KIA Assistance Agreements.

A summary of long-term liabilities of the District as of December 31, 2017 is as follows:

		Maturity Date	Beginning Balance 12/31/2016	Additions	Deletions	Ending Balance 12/31/2017	Due in One Year	Due Beyond One Year
KIA Loan F02-07	1%	6/1/25	$ 1,483,278	$ -	$ 168,047	$ 1,315,231	$ 169,731	$ 1,145,500
KIA Loan F07-06	1%	12/1/29	743,068	-	53,801	689,267	54,340	634,927
KIA Loan F13-023	3%	6/1/35	807,242	-	33,997	773,244	34,939	738,306
KIA Loan F10-04	2%	12/1/33	821,904	-	41,036	780,868	41,861	739,007
Series 2008 Bonds	2.30-4.25%	2/1/22	1,780,000	-	265,000	1,515,000	280,000	1,235,000
Accrued Premium			28,420	-	5,076	23,344	5,076	18,268
			5,663,912	-	$ 566,957	5,096,954	585,947	4,511,007
Net pension liability			879,114	161,764	-	1,040,878	-	1,040,878
Compensated absences			102,858	17,919	-	120,777	-	120,777
			$ 6,645,884	$ 179,683	$ 566,957	$ 6,258,609	$ 585,947	$ 5,672,662

Debt service requirements to maturity for long-term debt:

Year End December 31	Principal	Interest	Total
2018	$ 585,947	$ 112,533	$ 698,480
2019	600,003	97,078	697,081
2020	614,124	81,156	695,280
2021	633,313	64,275	697,588
2022	650,534	46,311	696,845
2023-2027	1,193,112	134,699	1,327,811
2028-2032	629,179	59,189	688,368
2033-2035	190,742	6,439	197,181
	$ 5,096,954	$ 601,680	$ 5,698,634

Interest expense in the amount of $127,158 was recorded as of December 31, 2017 for all long term debt.

NOTE 6 – Pension Plan

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description— Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members. CERS issues a publicly available financial report included 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 (502) 564-4646 or at https://kyret.ky.gov.

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

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending December 31, 2017 employers were required to contribute 18.68% of the member’s salary. During the year ended December 31, 2017, the District contributed $107,676 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At December 31, 2017, the District reported a $1,040,878 liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2016 was determined using standard roll-forward techniques. The District’s proportion of the net pension liability was based on contributions to CERS during the fiscal year ended December 31, 2017. At December 31, 20117 the District’s proportion was .0211405% (percent).

For the year ended December 31, 2017, the District recognized pension expense of $65,313 related to CERS. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,544	$ -
Changes of assumptions	55,140	-
Net difference between projected and actual earnings on pension plan investments	97,853	-
Changes in proportion and differences between District contributions and proportionate share of contributions	28,393	-
District contributions subsequent to the measurement date	107,676	
	$ 293,606	$ -

The $107,676 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

	Year Ended June 30,
2018	$ 46,482
2019	46,482
2020	46,482
2021	46,484
	$ 185,930

Actuarial Methods and Assumptions—The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions:

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 Increase	4.0 % average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2016:

- The assumed investment rate of return remained at 7.5%.
- The assumed rate of inflation remained at 3.25%.
- The assumed rate of wage inflation remained at .75%.
- Payroll growth assumption remained at 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	100.0%	

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that 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 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	1,297,103	1,040,878	821,243

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.

Payables to the pension plan: At December 31, 2017, there are no payables to CERS.

NOTE 7-Cafeteria plan

The District maintains a cafeteria plan in accordance with Section 125 of the U.S. Internal Revenue Code (IRC). The plan allows eligible employees to reduce their taxable compensation by allocating an amount from each pay period to pay health insurance premiums. Total employer contributions to the plan in 2017 were $72,081. The District pays for the cost of a single person plan. Any additional coverage is paid by the employee through contributions to the plan.

NOTE 8 – Risk management

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/ destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District purchased commercial insurance coverage.

NOTE 9-Restricted cash and investments

Restricted cash and investments consisted of the following as of December 31, 2017:

Customer Deposits	$	47,989
KIA Repairs/Maintenance Reserve Account		376,846
Bond and Interest Sinking Fund		298,330
Restricted Depreciation Reserve Account		272,399
Restricted for Future Projects		2,530
Subtotal Restricted Cash		998,094
Restricted Debt Service Reserve Account		391,788
Restricted cash and investments	$	1,389,882

NOTE 10 – Subsequent events

The District has evaluated subsequent events through April 27, 2018, the date the financial statements were available to be issued.

Madison County Utilties District

REQUIRED SUPPLEMENTARY INFORMATION -

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

For the Year Ended December 31, 2017

	Reporting Fiscal Year (Measurement Date) 2017 (2016)	**Reporting Fiscal Year** (Measurement Date) 2016 (2015)	**Reporting Fiscal Year** (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:			
Districts' proportion of the net pension liability	0.02114%	0.02045%	2.04470%
District's proportionate share of the net pension liability	$ 1,040,878	$ 879,114	$ 998,520
State's proportionate share of the net pension liability associated with the District	-	-	-
Total	$ 1,040,878	$ 879,114	$ 998,520
District's covered-employee payroll	$ 568,695	$ 520,285	$ 497,311
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	183.03%	168.97%	200.78%
Plan fiduciary net position as a percentage of the total pension liability	59.00%	59.97%	59.97%

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

See the accompanying notes to the required supplementary information.

Madison County Utilities District

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS

For the Year Ended December 31, 2017

	2017	2016	2015
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:			
Contractually required contribution	$ 105,676	$ 93,005	$ 86,364
Contributions in relation to the contractually required contribution	105,676	93,005	86,364
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	$ 568,695	$ 520,285	$ 497311
District's proportionate share of the required contributions as a percentage of it's covered-employee payroll	18.58%	17.88%	17.37%

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

See the accompanying notes to the required supplementary information.

(1) CHANGES OF ASSUMPTIONS

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016:

- The assumed investment rate of return remained at 7.50%
- The assumed rate of inflation remained at 3.25%.
- The assumed rate of wage inflation remained at 0.75%.
- Payroll growth assumption remained at 4.00%.
- The morality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

CERS

The actuarially determine contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

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 Increase	4.0 % average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.

White & Associates, PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475

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 of the Madison County Utilities District
Richmond, Kentucky

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 (enterprise fund) of the Madison County Utilities District (District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 27, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

White & Associates PSC

White & Associates, PSC
Richmond, Kentucky
April 27, 2018

MADISON COUNTY UTILITIES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

SECTION I – SUMMARY OF AUDITORS' RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings.

MADISON COUNTY UTILITIES DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2017

SECTION II – FINANCIAL STATEMENT FINDING

2016-001 – Compensated Absences

Condition: Compensated absences were unrecorded and therefore, not in compliance with GASB Statement No. 16.

Criteria: In accordance with GASB Statement No. 16, a liability is recorded for unused vacation balance since the employees' entitlement to these balances are attributable to services already rendered and it is probably that virtually all of these balances will be liquidated by either paid time off or payments upon termination. In addition, a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in retirement payments.

Cause: Management was not aware of requirements for GASB Statement No. 16 and the recording of compensated absences.

Effect: The financial statements will be misstated.

Recommendation: Procedures should be implemented to include the tracking of the balances for compensated absences and make the adjustment to the financial statements accordingly.

Subsequent Review: This finding has been corrected in the current fiscal year under audit.