

Western Pulaski County Water District

Financial Statements

December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Western Pulaski County Water District
Somerset, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Change in Accounting Principle

As discussed in Notes 6 and 10 to the financial statements, effective July 1, 2017 the District adopted the new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4-6 and the Pension and OPEB Liability Schedules on pages 28-31 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 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Statement of Revenues, Expenses and Change in Net Position – Budget and Actual for 2018 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Statement of Revenues, Expenses, and Change in Net Position – Budget and Actual is the responsibility of management and was 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 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 Statements of Revenues, Expenses and Change in Net Position – Budget and Actual are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2019 on our consideration of the Western Pulaski County Water 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 Western Pulaski County Water District's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

May 9, 2019

WESTERN PULASKI COUNTY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Western Pulaski County Water District, we offer readers of the District's financial statements this narrative overview of the financial activities of the District for the fiscal year ending December 31, 2018. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

For the year ended December 31, 2018 total operating and non-operating revenues (including capital contributions) were \$3,082,155 and increase of approximately \$47,000 from prior year, primarily due to an increase in water sales.

Total operating and non-operating expenses amounted to \$3,143,017 for the year ended December 31, 2018, an increase of \$359,286, attributable mostly to the actuarial pension and OPEB expense determined by Kentucky Retirement Systems, as well as an increase in water purchases.

Total assets and deferred outflows increased by \$1,291,611, and total liabilities and deferred inflows increased by \$1,352,473. These changes resulted in a decrease in net position of \$60,862.

During 2018, the District used loan funds from KIA to complete construction of the Hickory Nut Water Storage Tank. The District also obtained interim financing from Citizens National Bank to begin construction on the Big Clifty Water Improvement Project.

Overview of the Financial Statements

This report consists of this Management's Discussion and Analysis report, the Independent Auditor's Report, Financial Statements and Supplementary Information. The financial statements include notes which explain in detail some of the information included in the financial statements.

Required Financial Statements

The financial statements of Western Pulaski County Water District report information of Western Pulaski County Water District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of Western Pulaski County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Western Pulaski County Water District creditors (liabilities). It also provides the basis for evaluation of the capital structure of Western Pulaski County Water District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of Western Pulaski County Water District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

**WESTERN PULASKI COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**Western Pulaski County Water District
Summary of Net Position
December 31, 2018 and 2017**

	<u>2018</u>	Restated <u>2017</u>
Assets		
Total Current Assets	\$ 2,543,555	\$ 2,431,187
Total Restricted Assets	631,220	595,900
Net Capital Assets	<u>14,236,885</u>	<u>13,233,191</u>
Total Assets	<u>17,411,660</u>	<u>16,260,278</u>
Deferred Outflows	<u>326,980</u>	<u>186,751</u>
Liabilities		
Total Current Liabilities	892,189	798,509
Total Long-term Liabilities	<u>7,478,477</u>	<u>6,274,586</u>
Total Liabilities	<u>8,370,666</u>	<u>7,073,095</u>
Deferred Inflows	<u>95,358</u>	<u>40,456</u>
Net Position		
Invested in capital assets, net of related debt	7,423,905	7,608,193
Restricted for equipment replacement	347,353	323,715
Restricted for debt retirement	283,867	272,185
Unrestricted	<u>1,217,491</u>	<u>1,129,085</u>
Total Net Position	<u>\$ 9,272,616</u>	<u>\$ 9,333,178</u>

The largest portion (80%) of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding.

Restricted net position (7%) represent resources that are subject to external restrictions on how they may be used.

The balance (13%) of unrestricted net position may be used to meet the District's ongoing obligations to citizens, consumers and creditors.

**WESTERN PULASKI COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Summary of Changes in Net Position
For the Year Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Total operating revenues	\$ 2,999,184	\$ 2,921,392
Total operating expenses	<u>2,995,583</u>	<u>2,627,129</u>
Operating income (loss)	3,601	294,263
Total non-operating revenue (expense)	<u>(116,386)</u>	<u>(112,346)</u>
Income before capital contributions	(112,785)	181,917
Capital contributions	<u>51,923</u>	<u>69,890</u>
Increase (decrease) in net position	(60,862)	251,807
Net position, beginning of year, restated	<u>9,333,478</u>	<u>9,081,671</u>
Net position, end of year	<u>\$ 9,272,616</u>	<u>\$ 9,333,478</u>

Net position decreased by \$60,862 from the prior year. The December 31, 2017 change in net position has not been restated for the inclusion of the net OPEB liability that is included in the 2018 financial statements. The 2018 financial statements include net OPEB expense of \$22,839 which is not reflected in the 2017 statements above.

Capital Asset Changes

At December 31, 2018, the District had invested \$14,236,885 in capital assets net of accumulated depreciation. This amount represents a net increase of \$1,003,694 from the previous year due to construction projects during the year related to the Hickory Nut Water Storage Tank as well as the Big Clifty Water Improvement Project.

Budgetary Highlights

The Western Pulaski County Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised. A budget comparison and analysis is presented on page 32 of this report.

Debt Administration

At December 31, 2018, the District had \$6,523,229 in outstanding debt, an increase of \$898,231 from the prior year's balance of \$5,624,998. The District incurred \$166,944 in interest expense associated with long term debt, \$19,510 was capitalized interest associated with construction.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Western Pulaski County Water District's finances and to demonstrate Western Pulaski County Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the Western Pulaski County Water District at 2128 West Highway 80, Somerset, KY or by phone (606) 679-1569.

WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2018

Assets

Current Assets

Cash	\$ 2,037,289
Accounts receivable	371,347
Prepaid assets	7,648
Inventory	<u>127,271</u>
Total Current Assets	<u>2,543,555</u>

Non-current Assets

Restricted Assets	
Cash - Depreciation fund	347,353
Cash - Bond and interest	<u>283,867</u>
Total Restricted Assets	<u>631,220</u>

Capital Assets

Construction in progress	806,005
Land and land rights	494,938
Utility plant in service	22,057,480
Equipment	702,544
Accumulated depreciation	<u>(9,824,082)</u>
Net Capital Assets	<u>14,236,885</u>
Total Non-current Assets	<u>14,868,105</u>

Total Assets	<u>17,411,660</u>
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Deferred Outflows

Outflows relating to net pension and OPEB liabilities	<u>326,980</u>
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WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Net Position, Concluded
December 31, 2018

Current Liabilities

Accounts payable	\$ 167,277
Construction accounts payable	196,457
Customer deposits	237,023
Accrued liabilities	19,125
Accrued interest	75,807
Current maturities of long-term debt	196,500
Total Current Liabilities	<u>892,189</u>

Long-term Liabilities

Accrued compensated absences	18,360
Long-term debt, less current maturities	6,326,729
Net OPEB liability	289,751
Net pension liability	843,637
Total Long-term Liabilities	<u>7,478,477</u>

Total Liabilities	<u>8,370,666</u>
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Deferred Inflows

Inflows relating to net pension and OPEB liabilities	<u>95,358</u>
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Net Position

Net Position

Invested in capital assets, net of related debt	7,423,905
Restricted for equipment replacement	347,353
Restricted for debt retirement	283,867
Unrestricted	1,217,491
	<u>1,217,491</u>

Total Net Position	<u>\$ 9,272,616</u>
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WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2018

Operating revenues:

Residential water sales	\$ 2,721,381
Commercial water sales	162,404
Miscellaneous service revenues	<u>115,399</u>
Total operating revenues	<u>2,999,184</u>

Operating expenses:

Water purchases	1,321,510
Utilities	88,971
Transmission and distribution expense	44,815
Meter readers	99,872
Office expense	66,107
Transportation expenses	27,675
Insurance	55,489
Directors' fees	12,400
Employees' salaries and wages	344,683
Employees' pensions and benefits	144,339
Actuarial pension and OPEB expense	226,436
Payroll taxes	30,764
Depreciation and amortization	409,689
PSC tax assessment	5,843
Professional fees	68,603
Bad debts	11,566
Miscellaneous	<u>36,821</u>
Total operating expenses	<u>2,995,583</u>
Operating income (loss)	<u>3,601</u>

Non-operating revenue (expenses):

Rents from water property	23,470
Interest income	7,578
Interest expense on long-term debt	<u>(147,434)</u>
Total non-operating revenue (expenses)	<u>(116,386)</u>
Income/(loss) before capital contributions	<u>(112,785)</u>

Capital contributions

Tap fees	<u>51,923</u>
Total capital contributions	<u>51,923</u>

Increase (decrease) in net position (60,862)

Net position:

Beginning of year, restated	<u>9,333,478</u>
End of year	<u>\$ 9,272,616</u>

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

WESTERN PULASKI COUNTY WATER DISTRICT
Statement of Cash Flows
December 31, 2018

Cash flows from operating activities:

Cash receipts from customers	\$ 3,009,441
Cash payments to suppliers for goods and services	(1,921,635)
Cash payments to employees for services	(503,525)
Net cash provided (used) by operating activities	<u>584,281</u>

Cash flows from capital and related financing activities:

Principal paid on long-term debt	(192,500)
Proceeds from KIA and CNB loans	1,090,731
Interest paid on long-term debt	(150,163)
Additions to capital assets	(1,413,383)
Increase (decrease) in construction payable	32,488
Tap fees	51,923
Net cash provided (used) in financing activities	<u>(580,904)</u>

Cash flows from investing activities:

Rental income	23,470
Interest income	7,578
Net cash provided by (used) in investing activities	<u>31,048</u>

Net increase (decrease) in cash and cash equivalents	34,425
Cash and cash equivalents, beginning of year	<u>2,634,084</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,668,509</u></u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income (loss)	\$ 3,601
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	409,689
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(10,574)
(Increase) decrease in prepaid assets	582
(Increase) decrease in inventory	(103,271)
Increase (decrease) in actuarial pension/OPEB	226,436
Increase (decrease) in accounts payable	35,597
Increase (decrease) in customer deposits	20,831
Increase (decrease) in accrued liabilities	1,390
Net cash provided (used) by operating activities	<u><u>\$ 584,281</u></u>

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 1 – Description of Entity and Summary of Significant Accounting Policies

Organization

The Western Pulaski County Water District was organized under KRS 74.010 to provide water service to the residents of Western Pulaski County. The District's commissioners are appointed by the Pulaski County Judge-Executive.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses in Western Pulaski County.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital position, net of related debt, (ii) restricted, and (iii) unrestricted.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - This component of net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Restricted Funds

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.

Receivables

The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of December 31, 2018. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation expense for the year ending December 31, 2018 was \$409,689.

The estimated useful lives of capital assets are as follows:

Utility plant	40 - 62.5 years
Equipment	10 - 25 years

Cash and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value. The District has adopted no formal investment policy.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the Statement of Net Position.

Inventory

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capital addition as inventory items are consumed.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Concluded

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Bond and Interest Redemption Fund

The ordinances authorizing the bond issues require monthly deposits of one-twelfth of the annual bond principal requirement and one-sixth of the semi-annual interest requirement. For the year ended December 31, 2018 the District had complied with this requirement.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation Fund

The ordinances authorizing the various bond issues of the District require annual transfers of \$29,700 into a depreciation fund until the maximum requirement of \$305,940 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the year ended December 31, 2018 the District had funds in excess of the required balance.

Compensated Absences

Full time employees with 1-3 years of service receive 1 week of paid vacation, 4-6 years, 2 weeks of vacation, 7-10 years, 3 weeks of vacation and 11 years or more, 4 weeks. Unused vacation time may be carried over from one calendar year to another with a maximum of 4 weeks accrued. Upon retirement or termination, employees are compensated for any currently accrued vacation pay.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 2 – Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and rights	\$ 494,938	\$ -	\$ -	\$ 494,938
Construction in progress	879,246	1,143,230	(1,216,471)	806,005
<i>Total Non-Depreciable Capital Assets</i>	<u>1,374,184</u>	<u>1,143,230</u>	<u>(1,216,471)</u>	<u>1,300,943</u>
<i>Capital Assets being depreciated</i>				
Transmission and distribution lines	6,799,768	-	-	6,799,768
Line extensions	9,913,411	-	-	9,913,411
Meter installations	2,366,189	149,188	(39,050)	2,476,327
Services	568,482	-	-	568,482
Communication radios	9,106	-	-	9,106
Office equipment	207,799	-	-	207,799
Equipment and tools	62,743	17,565	-	80,308
Office building	255,572	-	-	255,572
Buildings	227,695	-	-	227,695
Distribution reservoir	46,477	1,216,468	-	1,262,945
Hydrants	20,147	-	-	20,147
Electric pumping equipment	533,133	-	-	533,133
Vehicles	301,928	103,403	-	405,331
<i>Total Depreciable Capital Assets</i>	<u>21,312,450</u>	<u>1,486,624</u>	<u>(39,050)</u>	<u>22,760,024</u>
Less: Accumulated depreciation	<u>(9,453,443)</u>	<u>(409,689)</u>	<u>39,050</u>	<u>(9,824,082)</u>
Total Net Capital Assets	<u>\$ 13,233,191</u>			<u>\$ 14,236,885</u>

Capitalization of Interest:

Interest costs incurred during construction are capitalized. Interest capitalized for the year ended December 31, 2018 was \$19,510.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 3 – Long-Term Debt

Long-term debt consists of the following bonds payable at December 31, 2018:

Series 2002A Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$900,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	\$ 724,000
Series 2002B Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$550,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	440,000
Series 2010 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$911,000; due in annual installments on January 1, through 2049; interest rate of 2.25% due semi-annually on January 1 and July 1.	805,000
Series 2012E Water Revenue Bonds issued through Kentucky Rural Water Finance Corporation in the amount of \$2,080,000; (to refund Series 2001A and 2001B revenue bonds) due in annual installments on July 1, through 2035; interest rate of 2.2 - 3.7% due semi-annually on January 1 and July 1.	1,430,000
Series 2013 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$1,400,000; due in annual installments on January 1, through 2053; interest rate of 2.25% due semi-annually on January 1 and July 1.	<u>1,327,500</u>
Total Bonds Payable:	<u>\$ 4,726,500</u>

Long-term debt consists of the following notes payable not yet finalized at December 31, 2018:

KIA F16-003 Loan issued through Kentucky Infrastructure Authority of the Federally Assisted Drinking Water Revolving Loan Fund for Water System Improvements project not to exceed \$3,304,000; interest of 1.75% due on June 1 or December 1, immediately succeeding date of initial draw of funds. A loan servicing fee of .25% of the annual outstanding balance shall be payable as part of each interest payment.	\$ 1,042,673
Interim financing through Citizens National Bank not to exceed \$2,500,000 interest rate of 4% due monthly immediately succeeding date of initial draw of funds. A certificate of deposit at Citizens Nations Bank in the amount of \$1,000,000 is held as collateral, as well as all furniture, fixtures and equipment of the District.	<u>754,056</u>
Total Notes Payable:	<u>\$ 1,796,729</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 3 – Long-Term Debt, Concluded

Principal and interest maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 196,500	\$ 146,063	\$ 342,563
2020	202,500	139,791	342,291
2021	210,500	133,291	343,791
2022	217,500	126,541	344,041
2023	220,500	119,541	340,041
2024-2028	861,000	497,203	1,358,203
2029-2033	755,000	373,960	1,128,960
2034-2038	718,500	241,771	960,271
2039-2043	646,500	125,612	772,112
2044-2048	405,500	56,188	461,688
2049-2053	292,500	15,182	307,682
	<u>\$ 4,726,500</u>	<u>\$ 1,975,143</u>	<u>\$ 7,045,451</u>

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

<u>Debt</u>	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Debt Payments and Reductions</u>	<u>Balance December 31, 2018</u>	<u>Amount Due within One Year</u>
RD 2002A	\$ 740,000	\$ -	\$ (16,000)	\$ 724,000	\$ (18,000)
RD 2002B	450,000	-	(10,000)	440,000	(11,000)
RD 2010	821,500	-	(16,500)	805,000	(17,000)
KRWFC 2012E	1,555,000	-	(125,000)	1,430,000	(125,000)
RD 2013	1,352,500	-	(25,000)	1,327,500	(25,500)
KIA F16-003	705,998	336,675	-	1,042,673	-
CNB Interim Financing	-	754,056	-	754,056	-
	<u>\$ 5,624,998</u>	<u>\$ 1,090,731</u>	<u>\$ (192,500)</u>	<u>\$ 6,523,229</u>	<u>\$ (196,500)</u>

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The District performed calculations of excess investment earnings on various bonds and at December 31, 2018 and does not expect to incur a liability.

Note 4 – Cash and Investments

The carrying amount of the District's cash deposits was \$2,668,509 for the year ending December 31, 2018 and the bank balance was \$2,687,890. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. All of the District's deposits were either insured by FDIC or by collateral pledged by Citizens National Bank. The District does not have a formal investment policy. At December 31, 2018 the District held a certificate of deposit in the amount of \$1,000,000 at Citizens National Bank, earning interest of 1%.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The District participates in the County Employee Retirement System (CERS), a cost-sharing multiple-employer retirement system administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). CERS is a defined benefit plan created by the Kentucky General Assembly. The Plan covers substantially all full-time employees. 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 adjustments are provided at the discretion of the State legislature. Benefits fully vest upon reaching five years of service and are established by the state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit.

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

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.ky.gov

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan, Continued

Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Required contributions by the employee are based on the tier:

Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

At December 31, 2018, the District reported a liability for its proportionate share of the net pension liability for CERS.

District's proportionate share of the CERS net pension liability	\$ 843,637
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The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ending June 30, 2017 using generally accepted actuarial principles.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's proportion was .01441%.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan, Continued

For the year ended December 31, 2018, the District recognized pension expense of \$269,511. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience in the measurement of the total pension liability	\$ 1,046	\$ 21,415
Net difference between projected and actual earnings on pension plan investments	66,815	56,380
Changes in assumptions	59,272	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	79,123	2,393
District contributions subsequent to the measurement date	52,091	-
	\$ 258,347	\$ 80,188

The 2018 CERS employer contributions are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows related to pensions will be amortized and recognized in pension expense as follows:

Year Ended	Net Deferred Outflows (Inflows)
12/31/2019	\$ 94,498
12/31/2020	42,403
12/31/2021	(10,833)
	\$ 126,068

Actuarial assumptions—Prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30:

	2017	2016
Inflation	2.30%	3.25%
Projected salary increases	3.05%	4.00%
Investment rate of return, net of investment expense and inflation	6.25%	7.50%

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan, Continued

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 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 capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The following table presents the allocation and long-term expected return on plan assets:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
	<u>100.0%</u>	

Discount rate: The discount rate used to measure the total pension liability was 6.25%.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 5 – Pension Plan, Concluded

Projected cash flows: The projection of cash flows used to determine the discount rate assumed that plan employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Municipal bond rate: The discount rate determination does not use a municipal bond rate.

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

The following table presents the net pension liability of the District, calculated using the discount rates selected by CERS, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$1,064,009	\$843,637	\$659,298

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

Non-hazardous plan members are required to contribute 5% of their annual creditable compensation. The Western Pulaski County Water District is required to contribute at actuarially determined rates. The rate for the year ended June 30, 2018 was 14.48% for non-hazardous employees' annual creditable compensation. The compensation requirements of the plan members of the Western Pulaski County Water District, are established and may be amended by the Board of Trustees of KRS.

For the year ended December 31, 2018, the District's total covered payroll was approximately \$337,000. The District contributed approximately \$52,000 and employees contributed approximately \$18,000.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 6 – Other Postemployment Benefits (OPEB)

Effective July 1, 2017, The District adopted GASB Statement 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The objective of this Statement is to address accounting and financial reporting for Other Post-Employment Benefits (OPEB) that are provided to the employees of state and local governmental employers. This Statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows or resources, and expense. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Kentucky Retirement Systems provides participants their proportionate share of the OPEB unfunded liability calculated by Gabriel, Roeder, Smith & Co (GRS) to be used in financial reports. KRS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.ky.gov.

Plan Description: The Kentucky Retirement Systems' Insurance Fund is a cost sharing multiple-employer defined benefit Other Post-Employment Benefit plan for members that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state departments, board, agency, county, District, school board, and any additional eligible local agencies electing to participate.

Benefits Provided: The plan was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. OPEB may be extended to beneficiaries of plan members under certain circumstances. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 6 – Other Postemployment Benefits (OPEB), Continued

Contributions: The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. As a result of House Bill 290, medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. See chart for current values for Dollar Contribution. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Dollar Contribution for Fiscal Year 2017</u>		<u>Portion Paid by Insurance Fund</u>	
For Member participation date on or after July 1, 2003			
<u>System</u>	(in whole dollars)	<u>Years of service</u>	<u>% Paid by Insurance Fund</u>
KERS Non-hazardous	\$ 13.18	20+ years	100.00%
KERS Hazardous	\$ 19.77	15-19 years	75.00%
CERS Non-hazardous	\$ 13.18	10-14 years	50.00%
CERS Hazardous	\$ 19.77	4-9 years	25.00%
SPRS	\$ 19.77	Less than 4 years	0.00%

Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees. The fully insured premiums KRS pays for the CERS health insurance plans are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing it to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 6 – Other Postemployment Benefits (OPEB), Continued

The distributions from the retiree health insurance trust pay the employers' portion of the blended premiums, not the employers' portion of the underlying retiree claims costs. As a result, the benefit payments and contribution amounts need to include an adjustment related to the implicit subsidy. Participating employers adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes.

OPEB Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available in the separately issued KRS financial statements.

At June 30, 2018, the District reported a liability of \$289,751 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. At June 30, 2017, the District's proportionate share was .01441%.

As a result of its requirement to contribute to the Plan, the District recognized OPEB expense of \$22,839 for the year ended December 31, 2018 and reported deferred inflows and deferred outflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience in the measurement of the OPEB liability	\$ -	\$ 805
Net difference between projected and actual investment earnings on OPEB investments	-	13,693
Changes in assumptions and other inputs	54,810	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	672
District contributions subsequent to the measurement date of the OPEB liability	13,823	-
	\$ 68,633	\$ 15,170

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 6 – Other Postemployment Benefits (OPEB), Continued

The deferred outflows resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in expense as follows:

<u>Year Ended</u>	<u>Net Deferred Outflows/(Inflows)</u>
12/31/2019	\$ 8,238
12/31/2020	8,238
12/31/2021	8,238
12/31/2022	11,661
12/31/2023	<u>3,265</u>
Total	<u>\$ 39,640</u>

Actuarial Assumptions: The total OPEB liability, net OPEB liability and sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017 using generally accepted actuarial principles. The KRS Board of Trustees adopted the following updated actuarial assumptions used in performing the actuarial valuation as of June 30, 2017:

Assumed investment return	6.25%
Inflation factor	2.30%
Payroll growth	2.00%

Mortality rates were based on the RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	<u>2.0%</u>	1.88%
	<u>100.0%</u>	

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 6 – Other Postemployment Benefits (OPEB), Concluded

Discount Rate: The single discount rates of 5.84% for Non-hazardous and 5.96% for Hazardous were used to measure the total OPEB liability as of June 30, 2017. For both hazardous and non-hazardous groups, the single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56% as reported in Fidelity Index’s “20 Year Municipal GO AA Index” as of June 30, 2017. The following presents the District’s proportionate share of the net OPEB liability if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS-Discount Rate	4.84%	5.84%	6.84%
District's proportionate share of net OPEB liability	\$ 368,692	\$ 289,751	\$ 224,059

Healthcare Trend Rate: The initial trend rate for participants under 65 years of age starts at 7.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 5 years. For those over 65 years of age the trend rate starts at 5.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 2 years. The following table presents the District’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Healthcare Cost Current Trend Rate</u>	<u>1% Increase</u>
Healthcare Cost Trend Rate	4.84%	5.84%	6.84%
District's proportionate share of net OPEB liability	\$ 222,254	\$ 289,751	\$ 377,493

Note 7 - Subsequent Events

Management has evaluated subsequent events through May 9, 2019, the date which the financial statements were available to be issued.

Note 8 – Deferred Inflows/Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2018 the District reported deferred outflows related to the pension and OPEB liabilities in the amount of \$326,980.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2018

Note 8 – Deferred Inflows/Deferred Outflows of Resources, Concluded

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At December 31, 2018 the District reported deferred inflows related to the pension and OPEB liabilities in the amount of \$95,358.

Note 9 – Commitments

The District began the Water System Improvements and Replacements Project in 2017 that includes the construction of the Big Clifty Creek Area Water Main Transmission as well as Hickory Nut Water Storage Tank. The Kentucky Infrastructure Authority granted approval of loan funds not to exceed \$3,304,000. The USDA Rural Development approved loan funds in the amount of \$2,255,000 and grant funds in the amount of \$854,000. The Hickory Nut Water Storage Tank project was completed in October 2018. The balance of construction in progress on the Big Clifty Creek Area Water Main Transmission project at December 31, 2018 was \$806,005. The District received interim financing during 2018 for the project in the form of a loan from Citizens National Bank.

Note 10 – Restatement

Net position as of January 1, 2017 has been adjusted for a change in accounting principle to recognize the Net OPEB liability as required by GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*. The effect of this change was a decrease of \$227,272 to beginning net position.

Net position as previously reported	\$ 9,560,750
Net OPEB liability	<u>(227,272)</u>
Net position, restated	<u>\$ 9,333,478</u>

Required Supplementary Information

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees Retirement System
Last Ten Fiscal Years as of December 31st **

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's portion of the net pension liability	0.01441%	0.01207%	0.01152%	0.01198%
District's proportionate share of net pension liability	\$ 843,637	\$ 594,353	\$ 495,402	\$ 388,639
District's covered-employee payroll	\$ 337,000	\$ 345,000	\$ 340,000	\$ 260,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	250.34%	172.28%	145.71%	149.48%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%

** Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of the District's Pension Contributions
County Employees Retirement System
Last Ten Fiscal Years as of December 31st **

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 52,091	\$ 65,000	\$ 62,000	\$ 46,000
Contributions in relation to the contractually required contribution	<u>(52,091)</u>	<u>(65,000)</u>	<u>(62,000)</u>	<u>(46,000)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered-employee payroll	 \$ 337,000	 \$ 345,000	 \$ 340,000	 \$ 260,000
Contributions as a percentage of covered- employee payroll	15.46%	18.84%	18.24%	17.69%

**Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

Notes to the Required Supplementary Information

Changes of Benefit Terms: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

Changes of Assumptions: Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30 2017. Specifically, the total OPEB liability as of June 30, 2017 was determined using a 2.3% price inflation assumption and an assumed rate of return of 6.25%.

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employees Retirement System
Last Ten Fiscal Years as of December 31st **

	<u>June 30, 2018</u>
District's portion of the net OPEB liability	0.01441%
District's proportionate share of net OPEB liability	\$ 289,751
District's covered-employee payroll	\$ 337,000
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	85.98%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

** Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of the District's OPEB Contributions
County Employees Retirement System
Last Ten Fiscal Years as of December 31st **

	<u>June 30, 2018</u>
Contractually required contribution	\$ 17,364
Contributions in relation to the contractually required contribution	<u>(17,364)</u>
	<u><u>\$ -</u></u>
 District's covered-employee payroll	 \$ 337,000
Contributions as a percentage of covered- employee payroll	5.15%

**Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

Notes to the Required Supplementary Information

Changes of Benefit Terms: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

Changes of Assumptions: Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30 2017. Specifically, the total OPEB liability as of June 30, 2017 was determined using a 2.3% price inflation assumption and an assumed rate of return of 6.25%.

Supplementary Information

WESTERN PULASKI COUNTY WATER DISTRICT
Statement of Revenues, Expenses and
Change in Net Position – Budget and Actual
For the Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water revenue	\$ 2,970,000	\$ 2,883,785	\$ (86,215)
Miscellaneous service revenues	<u>103,200</u>	<u>115,399</u>	<u>12,199</u>
Total operating revenues	<u>3,073,200</u>	<u>2,999,184</u>	<u>(74,016)</u>
Operating expenses:			
Salaries and wages	372,600	357,083	15,517
Purchased water	1,200,000	1,321,510	(121,510)
Materials and supplies	381,000	110,922	270,078
Contractual services	155,600	168,475	(12,875)
Transportation	26,400	27,675	(1,275)
Insurance	120,000	55,489	64,511
Other expenses	167,600	544,740	(377,140)
Depreciation	<u>520,000</u>	<u>409,689</u>	<u>110,311</u>
Total operating expenses	<u>2,943,200</u>	<u>2,995,583</u>	<u>(52,383)</u>
Operating income	<u>130,000</u>	<u>3,601</u>	<u>(126,399)</u>
Non-operating revenue (expenses):			
Rents from water property	73,000	23,470	(49,530)
Interest income and other	-	7,578	7,578
Interest expense on long-term debt	<u>(152,000)</u>	<u>(147,434)</u>	<u>4,566</u>
Total non-operating revenue (expenses)	<u>(79,000)</u>	<u>(116,386)</u>	<u>(37,386)</u>
Income before capital contributions	<u>51,000</u>	<u>(112,785)</u>	<u>(163,785)</u>
Capital contributions			
Grant proceeds	50,000	-	(50,000)
Customer contributions	<u>50,000</u>	<u>51,923</u>	<u>1,923</u>
Total capital contributions	<u>100,000</u>	<u>51,923</u>	<u>(48,077)</u>
Increase/(Decrease) in net position	<u>\$ 151,000</u>	<u>\$ (60,862)</u>	<u>\$ (211,862)</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of Findings and Responses
For the Year Ended December 31, 2018

2018-001

Condition:

During the audit, it was noted that the District implemented the water rate increase after the effective date under KRS 278.160.

Criteria:

Under KRS 278.160, requires that no utility shall charge, demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules.

Cause:

The Public Service Commission approved new water rates effective July 16, 2018, however the District did not implement the new rates until January 1, 2019.

Effect:

The District implemented new water rates after the effective date set by the Public Service Commission which is an issue of noncompliance.

Recommendations:

We recommend that the District contact the Public Service Commission to report the issue of noncompliance to determine a proper solution.

Response:

The District will contact the Public Service Commission and inquire on how to proceed.



Cindy L. Greer, CPA ■ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ■ L. Joe Rutledge, CPA ■ Ryan A. Mosier, CPA ■ Jenna B. Glass, CPA ■ Van Shepard, CPA

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*

Board of Directors
Western Pulaski County Water District
Somerset, 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 activities of Western Pulaski County Water District, as of and for the year ended December 31, 2018 and the related notes to the financial statements and have issued our report thereon dated May 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Pulaski County Water 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Western Pulaski County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Western Pulaski County Water 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 Western Pulaski County Water 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses, 2018-001.

Western Pulaski County Water District's Response to Findings

Western Pulaski County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Western Pulaski County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

May 9, 2019

