COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION	**)**
INTO EXCESSIVE WATER LOSS BY	**)**
KENTUCKY'S JURISDICTIONAL	**) CASE NO. 2019-00041**
WATER UTILITIES	**)**

RESPONSE OF

FARMDALE WATER DISTRICT

TO

COMMISSION STAFF'S POST HEARING REQUEST FOR

INFORMATION

DATED JULY 16, 2019

FILED: July 19, 2019

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Comes Farmdale Water District, for its Response to Commission Staff's Post Hearing Request for Information, and states as shown on the following pages.

Damon R. Talley

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CERTIFICATION OF RESPONSE OF FARMDALE WATER DISTRICT TO COMMISSION STAFF'S POST HEARING REQUEST FOR INFORMATION

This is to certify that I have supervised the preparation of Farmdale Water District's Responses to Commission Staff's Post Hearing Request for Information. The response submitted on behalf of Farmdale Water District is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: 7/19/2019

Brian Armstrong, Manager
Farmdale Water District

FARMDALE WATER DISTRICT

CASE NO. 2019-00041

Response to Commission Staff's Post Hearing Request for Information

Question No. 1

Responding Witness: Brian Armstrong

Q-1. Provide copies of the last five audits that have been performed for Farmdale District.

A-1. Copies of Farmdale District's audits for the years 2014 through 2018 are attached to this response.

2014 Audit

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 & 2013

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

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MEMBER
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Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2014 and 2013, and the related notes to the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Farmdale Water District as of December 31, 2014 & 2013, and the respective changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 and budgetary comparison on page 25 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2015 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.

Harrod & Associates, PSC
Frankfort, KY 40601

April 27, 2015
cys: 4

FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2014 & 2013

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May, 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds will begin in 2015. All associated capital improvement projects were completed in 2013.

Financial Highlights

In 2014, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,562,769. Of this amount $2,372,460 was invested in Capital Assets, net of debt, and $1,190,309 was unrestricted. In 2014, the Board's net assets decreased ($239,869) during the current fiscal year, primarily through an increase in payroll, employee benefits and depreciation.

In 2013, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,802,635. Of this amount $2,570,316 was invested in Capital Assets, net of debt, and $1,232,319 was unrestricted. In 2013, the Board's net assets decreased ($98,108) during the current fiscal year, primarily through an increase in payroll, employee benefits and depreciation.

Revenues

Gross income from the sale of water, including tap on fees and reconnect fees totaled $992,251 and $851,202 for the calendar years 2014 and 2013, respectively. The Kentucky Public Service Commission (PSC) approved one rate increase in 2014 effective beginning with the September billing. This rate increase submitted on December 30, 2013, was submitted to assist in meeting the cost of federal loan debt retirement. During 2013, PSC approved two rate increases, the first was effective in April 2013 and the second in August 2013. All the rate increases for 2013 were primarily to meet the increased cost of purchased water.

Expenses
Operating expenses were $1,256,660 and $993,423 for the calendar years 2014 and 2013, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses", and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,600 rural residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of three components:

>Financial Statements
>Notes to the Financial Statements
>Required Supplemental Information

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of

Financial Overview (continued)

cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2014 and 2013 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 24 of this report.

The required supplementary information includes the Detailed Schedule of Budgeted and Actual Operating Expenses which compares the actual expenses to the budget and can be found on page 25.

Statement of Net Position Overview

The District was not required to have an audit under A-133 for 2014 but was for 2013.

Statement of Net Position	2014	2013	Change	% Change
Capital Assets	4,230,460	4,428,316	(197,856)	(4.47%)
Current and other assets	1,440,179	1,468,552	(28,373)	(1.93%)
Total Assets	5,670,639	5,896,868	(226,229)	(3.84%)
Long-term Liabilities	1,837,000	1,858,000	(21,000)	1.13%
Other Liabilities	270,870	236,233	34,637	14.66%
Total Liabilities	2,107,870	2,094,233	13,637	.65%
Net Position:				
Invested in Capital Assets	2,372,460	2,570,316	(197,856)	(4.47%)
Unrestricted	1,190,309	1,232,319	(42,010)	(6.71%)
Total Net Position	3,562,769	3,802,635	(239,866)	(6.31%)

Financial Overview (continued)

Statement of Net Position	2013	2012	Change	% Change
Capital Assets	4,428,316	3,332,517	1,095,799	32.88%
Current and other assets	1,468,552	1,428,152	40,400	2.83%
Total Assets	5,896,868	4,760,669	1,136,199	23.87%
Long-term Liabilities	1,858,000	217,132	1,640,868	755.70%
Other Liabilities	236,233	642,792	(406,559)	(63.25%)
Total Liabilities	2,094,233	859,924	1,234,309	143.54%
Net Position:				
Invested in Capital Assets	2,570,316	3,115,385	(545,069)	(17.50%)
Unrestricted	1,232,319	785,360	446,959	56.91%
Total Net Position	3,802,635	3,900,745	(98,110)	(2.52%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev, Exp and Changes in Net Position	2014	2013	Change	% Change
Operating Revenues	992,251	851,202	141,049	16.57%
Operating Expenses	1,256,660	993,423	263,237	26.50%
Operating Income/(Loss)	(264,409)	(142,221)	(122,188)	(85.91%)
Net Non-Operating Income	24,540	44,113	19,573	(44.37%)
Change in Net Position	(239,869)	(98,108)	(141,761)	(144.95%)

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

	2013	2012	Change	% Change
Operating Revenues	851,202	785,609	65,593	8.35%
Operating Expenses	993,423	875,437	117,986	13.48%
Operating Income/(Loss)	(142,221)	(89,828)	(52,393)	58.33%
Net Non-Operating Income	44,113	1,160,294	(1,116,181)	(96.20%)
Change in Net Position	(98,108)	1,070,466	(1,168,574)	(109.17%)

Assets
In 2014, the District's total assets decreased $226,229 from FY 2013. The Audit Report indicates the major decreases were in "Fixed Assets" due to the depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

In 2013, the District's total assets increased $1,136,199 from FY 2012. The Audit Report indicates the major increases were in "Fixed Assets" due to the "Water Storage Tank Project" and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

Liabilities
In 2014, the District's total liabilities increased $13,637 from FY 2013. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". The principle payments on the loan from the U.S. Department of Agriculture do not begin until 2015, as indicated by the "Current Portion of Noncurrent Liabilities".

In 2013, the District's total liabilities increased $1,234,309 from FY 2012. The Audit Report indicates the major changes were in "Accounts Payables" and "Long Term Liabilities". The decrease in Accounts Payable was a result of no outstanding Water Storage Tank Project unpaid invoices at year end. The increase in Long Term Debt is due to federal loans from the U.S. Department of Agriculture used to finance the Water Storage Tank Project.

Net Assets
The District's assets exceeded its liabilities by $3,562,769, $3,802,635 and $3,900,745 for fiscal years ended December 31, 2014, 2013 and 2012, respectively. This represents a decrease from fiscal year 2013 to 2014 of ($239,866) and 2012 to 2013 of ($98,110). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the

Net Assets (continued)
company needs liquidity for cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets
The District's investments in capital assets as of December 31, 2014, 2013 and 2012 amounted to $4,230,460, $4,428,316 and $3,332,517 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included:

The District, through self funding, grants from Kentucky Infrastructure Authority and loans from the U.S. Department of Agriculture completed the following improvements to their system, in 2013:

- Upgrades to the water line and pump station;
- Built a 500,000 gallon elevated water storage tank;
- Installed a Supervisory Control and Data Acquisition System which controls and monitors the pump stations and tanks; and
- Installed an automated meter reading system which will allow the District to read meters via radio waves.

Debt Administration

Long-Term Debt
The District has entered into an agreement with the U. S. Department of Agriculture to borrow $1,668,000 and a subsequent $190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The repayment of principle will begin with a $21,000 principal payment in January 2015. The loan is a 40 year loan at 3.125% interest payable semi-annually.

Budget

Budget
KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water
The District, in 2013, has completed the project of updating their water lines, storage capacity, and monitoring capability of much of their system.

Administrative and General
The District continues to experience an increase in health care expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future.

The District did hire another employee in August 2013 to meet the ever increasing demands of customer service. Future personnel will be based upon operational needs.

The District has experienced changes in the employer contribution rate to CERS for employee pension. In 2014, the employer share rate was 18.89% from January – June and changed to 17.67% for July – December, a 6.46% decrease. In 2013, the employer share rate was 19.55% from January – June and changed to 18.89% for July – December, a 3.38% decrease. These rates are expected to continue to fluxuate with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Future (continued)

Overall

The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

Farmdale Water District
Statement of Net Position
December 31, 2014 & 2013

ASSETS

CURRENT ASSETS	**2014**	**2013**
Cash and Cash Equivalents (Note 1)	$ 240,308	$ 227,752
Certificates of Deposit (Note 1)	1,061,924	1,125,548
Accounts Receivable (Note 1)	108,073	90,544
Inventory (Note 1)	14,303	13,324
Accrued Interest Receivable	440	432
Prepaid Expenses	15,131	10,952
TOTAL CURRENT ASSETS	1,440,179	1,468,552
CAPITAL ASSETS (Note 2)		
Land & Buildings	47,491	47,491
Equipment	143,676	143,676
Vehicles	29,462	28,562
Water Lines, Hydrants, Towers, & Meters	5,950,426	5,926,299
Accumulated Depreciation	(1,940,595)	(1,717,712)
TOTAL CAPITAL ASSETS	4,230,460	4,428,316
TOTAL ASSETS	$ 5,670,639	$ 5,896,868

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Net Position
December 31, 2014 & 2013

LIABILITIES

CURRENT LIABILITIES	2014	2013
Accounts Payable	$ 148,229	$ 145,590
Customer Deposits	39,315	41,030
Customer Deposits - Accrued Interest (Note 5)	5,286	5,712
Accrued Sales Tax	586	378
Accrued School Tax	2,552	1,834
Accrued Payroll Tax	4,724	4,202
Accrued Pension Expense (Note 3)	2,817	2,823
Accrued Loan Interest Payable (Note 3)	29,031	29,031
Current Portion of Noncurrent Liabilities	21,000	-
Unearned Income	17,330	5,633
TOTAL CURRENT LIABILITIES	270,870	236,233
NONCURRENT LIABILITIES		
U.S. Department of Agriculture (Note 8)	1,858,000	1,858,000
Current Portion of Noncurrent Liabilities	(21,000)	-
TOTAL NONCURRENT LIABILITIES	1,837,000	1,858,000
TOTAL LIABILITIES	2,107,870	2,094,233

NET POSITION

	2014	2013
Invested in Capital Assets, net of related debt	2,372,460	2,570,316
Unrestricted Net Assets	1,190,309	1,232,319
TOTAL NET POSITION	3,562,769	3,802,635
TOTAL LIABILITIES AND NET POSITION	$ 5,670,639	$ 5,896,868

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Revenues, Expenses, and Changes in Net Position
December 31, 2014 & 2013

OPERATING REVENUES	2014	2013
User Fees:		
Water - Residential	$ 760,310	$ 638,565
Water - Commercial	93,012	78,118
Sewer Surcharge Fees	89,120	87,476
Tap-on Fees	4,912	4,215
Late Payment Penalty Income	35,816	35,252
Reconnect Fees	9,081	7,576
TOTAL OPERATING REVENUES	992,251	851,202
OPERATING EXPENSES		
Water Purchased	506,732	446,570
Pumping Electricity	20,094	27,430
Payroll	180,520	167,792
Payroll Taxes	14,055	12,892
Employee Benefits	33,561	27,381
Retirement Benefits (Note 3)	26,147	28,369
Transmission and Distribution Expense	45,276	49,985
Administrative and General Expense	71,812	78,268
Interest Paid on Loans	58,062	-
Other Interest Expense	69	73
Water Testing	5,234	4,733
Maintenance & Repairs	19,129	13,394
Insurance & Workers' Comp	20,982	16,715
Taxes & Licenses	28,275	26,565
Fines	-	5,000
Bad Debts (Note 1)	3,829	2,835
Depreciation (Note 2)	222,883	85,421
TOTAL OPERATING EXPENSES	1,256,660	993,423
Operating Income	(264,409)	(142,221)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Revenues, Expenses, and Changes in Net Position
December 31, 2014 & 2013

NONOPERATING REVENUES (EXPENSES)		
Sewer Fees Collected	526,965	537,878
Sewer Fees Paid	(505,268)	(498,604)
Interest Income	2,068	2,585
Other Income	775	2,254
TOTAL NONOPERATING REVENUES (EXPENSES)	24,540	44,113
Change in Net Position	(239,869)	(98,108)
Net Position - Beginning of Year	3,802,637	3,900,745
Net Position - End of Year	$ 3,562,768	$ 3,802,637

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Cash Flows
December 31, 2014 & 2013

	2014	2013
Cash Flow from Operating Activities		
Cash received from users and customers	$ 965,311	$ 755,319
Cash payments to employees for services & benefits	(254,283)	(236,434)
Cash payments to suppliers of goods and services	(694,159)	(953,914)
Net Cash Provided by Operating Activities	16,869	(435,029)
Cash Flow from Capital & Related Financing Activities		
Payoff of Regions Bank loan	-	(1,087,556)
Proceeds from Regions Bank loan	-	870,424
Purchase of equipment, net of work-in-process	(25,027)	(1,182,903)
Proceeds from federal loans		1,858,000
Interest paid on Loans	(58,131)	-
Net Cash Provided by Capital & Related Financing Activities	(83,158)	457,965
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	526,965	537,878
Other non-operating income	775	2,254
Cash paid out from other non-operating expenses	(516,302)	(498,604)
Net Cash Provided (Used) by Noncapital Financing Activities	11,438	41,528
Cash Flows from Investing Activities		
Receipt of Interest	2,068	2,585
Purchase of a Certificate of Deposit	-	(31,154)
Redemption of a Certificate of Deposit	65,339	30,000
Net Cash (Used) Provided by Investing Activities	67,407	1,431
Net Change in Cash and Cash Equivalents	12,556	65,895
Cash and Cash Equivalents, Beginning of Year	227,752	161,857
Cash and Cash Equivalents, End of Year	$ 240,308	$ 227,752
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on hand	$ 75	$ 75
Cash Operations Account	175,700	145,626
Deposit account	36,653	35,662
Construction account	27,880	46,389
	$ 240,308	$ 227,752

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Cash Flows
December 31, 2014 & 2013

Reconciliation of Operating Income to Net Cash Provided by Operation Activities		2014		2013
Operating Income	$	(264,409)	$	(142,221)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities				
Depreciation		222,883		85,421
Bad Debts		3,829		2,835
Change in assets and liabilities				
Certificates of deposit		63,624		27,613
Accounts receivable		(17,529)		6,877
Inventory		(979)		(6,734)
Accrued interest receivable		(8)		179
Prepaid expenses		(4,179)		(2,440)
Accounts payable		2,639		(436,589)
Accrued payroll taxes payable		522		190
Customer deposits		(1,715)		2,415
Customer deposits - accrued interest		(426)		(549)
Accrued sales tax		208		81
Accrued school tax		718		407
Accrued pension expense		(6)		(762)
Unearned income		11,697		(783)
Accrued loan interest payable		-		29,031
Net Cash Provided by Operating Activities	$	16,869	$	(435,029)

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 & 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Operating revenues relate to the District's primary function of the collection of water sales. Non-operating revenues relate to all other revenue.

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District writes off accounts deemed uncollectible resulting from the customer's failure to pay. The amount written-off for the years ended December 31, 2014 and 2013 totaled $3,829 and $2,835, respectively. Management believes the remaining balance to be collectable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

G. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. The District could be exposed to a credit risk if cash and cash equivalents ever exceed the FDIC insured amount of $250,000 at one FDIC insured institution.

H. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District turns off the customers' water.

I. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

J. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

K. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000.

NOTE 2 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

A summary of property and equipment and depreciation for the years ended December 31, 2014 and 2013 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2014	Property & Equipment	$6,171,055	$ 222,883	$ 1,940,595
FY 2013	Property & Equipment	$6,146,028	$ 85,421	$ 1,717,712

Land valued at $4,806 is not being depreciated.

NOTE 3 - EMPLOYEE RETIREMENT

The District participates in the County Employees Retirement System (CERS), a qualified tax deferred retirement plan under I.R.C. 103 (b), established in 1958 under K.R.S.78.510 to 78.852. All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2014, the District contributed 18.89% from January – June and 17.67% thereafter. In 2013, the District contributed 19.55% from January through June and 18.89% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District's total contributions to the plan totaled $26,147 and $28,369 for fiscal years ended December 31, 2014 and 2013, respectively. The District owed the plan $2,817 and $2,823 at the end of 2014 and 2013, respectively.

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 3- EMPLOYEE RETIREMENT (continued)

A new accounting pronouncement has been issued by the Governmental Accounting Standards Board (GASB) to amend Statement No. 27 as it relates to Accounting and Financial Reporting for Pensions by governmental entities. This pronouncement requires the governmental entity to recognize the actuarial projected benefit obligation due to employees under a state sponsored defined benefit pension plan. The new accounting pronouncement requires the District to record a liability based on the actuarial projected benefit obligation. Under GAAP/USA a liability has been incurred if it is probable of payment and the amount can be measured. Management has acknowledged that this liability is probable of payment; however, the liability could not be measured as of December 31, 2014 or 2013, since the records needed to measure this liability reside with the Kentucky Retirement System (KRS).

The new GASB amendment is required to be implemented for periods beginning after June 15, 2013. KRS had indicated that they will provide a plan of implementation by December 31, 2013, and record the entry on the KRS accounting records by June 30, 2014. In addition, KRS will provide the state agencies and the District with a plan for implementation by December 31, 2014, and the state agencies and the District will be required to comply with the implementation plan by June 30, 2015. The liability is expected to be material and will be established with a charge to net assets and will reduce the District's net worth ratio. As of December 31, 2014, this information is still not available.

NOTE 4 - WATER STORAGE TANK PROJECT

The District was awarded a combination of state and federal funds to build a new storage tank and water lines for a portion of their service area. The District began the construction phase in the summer of 2012 and completed the project in November 2013. The District estimated a cost of $3.39 million; the final cost was approximately $3.53 million. The funding for this project included a $1.858 million loan from the federal government Department of Agriculture, over $1.22 million in Kentucky Infrastructure Grants and $500,000 in District funds.

NOTE 5 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

NOTE 5 - CUSTOMER DEPOSITS (continued)

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%. The estimated accrued interest on these deposits at December 31, 2014 & 2013 was $5,286 and $5,712, respectively.

NOTE 6 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service Commission, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2014 and 2013 by $4,912 and $4,215, respectively.

Both of these accounts are included in the net assets, if they had been segregated the Donated Capital - Tapping Fees would have had a balance in 2014 of $577,052 and $572,140 for 2013 and the Contributions in Aid of Construction would have totaled $2,243,579 for both 2014 and 2013.

NOTE 7 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855 "Subsequent Events". The District evaluated events occurring between the end of its most recent year end and this report date, which is the date these financial statements were available to be issued. During this evaluation, management was informed that a civil lawsuit had been filed claiming negligence on the District's part causing substantial damage to a personal residence. Council does not opine on the probability of an outcome to the case. However, if the District were to lose this case, management believes damages would be covered by insurance.

NOTE 8 – FEDERAL LOAN PAYABLE

In November, 2012, the District began drawing on a loan from Regions Bank in conjunction with the U.S. Department of Agriculture Rural Utility Service (RUS). The amount of loan funds available was \$1,668,000 with a subsequent RUS loan not to exceed \$190,000. The loan to Regions Bank was paid in full in March 2013 with the funds noted above from the U.S. Department of Agriculture.

Now closed, the District will pay the U.S. Department of Agriculture 3.125% for the life of the loan. The loan payments are interest only for 2013 and 2014 with principle payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit \$750 per month for the original loan and \$75 per month for the subsequent loan until such time the account reaches \$98,500. Management intends to open this account and begin the monthly set aside payments during 2015.

SUPPLEMENTAL INFORMATION

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2014

	Budget	Actual	Variable Favorable (Unfavorable)
Operating Revenues			
Water Sales - Residential	$ 692,561	$ 760,310	$ 67,749
Water Sales - Commercial	98,976	93,012	(5,964)
Late Payment Penalty Income	72,318	35,816	(36,502)
Miscellaneous Service Revenues	12,323	89,120	76,797
Other Water Revenues	36,745	13,993	(22,752)
Total Operating Revenues	912,923	992,251	79,328
Operating Expenses			
Salaries and Wages - Employees	155,000	163,580	(8,580)
Salaries and Wages - Commissioners	16,740	16,940	(200)
Medical Insurance	37,797	33,561	4,236
Retirement Benefits	35,400	26,147	9,253
Purchased Water	431,096	506,732	(75,636)
Materials & Supplies	38,305	35,868	2,437
Contractual Services - Engineering	-	-	-
Contractual Services - Testing	3,183	5,234	(2,051)
Contractual Services - Other	-		-
Transportation Expenses	29,255	13,474	15,781
Insurance - Vehicle			-
Insurance - General Liability	16,235	15,959	276
Insurance - Workers' Comp	4,306	5,023	(717)
Advertising Expense	121	902	(781)
Bad Debt Expense	1,500	3,829	(2,329)
Miscellaneous Expense	210,931	106,136	104,795
Depreciation Expense	108,250	222,883	(114,633)
Payroll Taxes	14,230	14,055	175
Taxes and Licenses	22,529	28,275	(5,746)
Total Operating Expenses	1,124,878	1,198,598	(73,720)
Net Income From Operations	(211,955)	(206,347)	5,608
Non-Operating Revenues (Expenses)			
Interest Income	3,575	2,068	(1,507)
Allowance for Funds Used During Construction	-	-	-
Sewer Income	638,886	526,965	(111,921)
Sewer Expense	(527,338)	(505,268)	22,070
Other Income	-	775	775
Interest on Long-Term Debt	(68,000)	(58,062)	9,938
Federal Grants & Customer Contributions	-	-	-
Total Non-Operating Revenues (Expenses)	47,123	(33,522)	(80,645)
Change in Net Position	$ (164,832)	$ (239,869)	$ (75,037)

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2014, 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, 2015.

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 opinions 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 over financial reporting.

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 over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audit, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audit, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated April 27, 2015.

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.

Harrod & Associates, PSC
Frankfort, KY 40601

April 27, 2015

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 & 2014

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

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AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2015 and 2014, and the related notes to the 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 of material misstatement.

An audit includes 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Farmdale Water District as of December 31, 2015 and 2014, and the respective changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2016 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.

Harrod & Associates, PSC

Harrod & Associates, PSC
Frankfort, KY 40601

June 1, 2016
cys: 4

FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2015 & 2014

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May, 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013.

Financial Highlights

In 2015, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,240,003. Of this amount $2,233,894 was invested in Capital Assets, net of $19,800 restricted for debt retirement, and $986,309 was unrestricted. In 2015, the Board's net assets decreased ($106,766), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

In 2014, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,346,769. Of this amount $2,372,460 was invested in Capital Assets, net of debt, and $974,309 was unrestricted. In 2014, the Board's net assets decreased ($239,868), primarily through an increase in payroll, employee benefits and depreciation.

Revenues
Gross income from the sale of water, including tap on fees and reconnect fees totaled $1,225,181 and $992,251 for the calendar years 2015 and 2014, respectively. The Kentucky Public Service Commission (PSC) approved two rate increases in 2015, both of these requests were in response to increases in the cost of water purchased from the Frankfort Plant Board. One of these increases was effective in January 2015 and the other in October 2015. In 2014, one rate increase was effective beginning with the September billing. This rate increase submitted on December 30, 2013, was submitted to assist in meeting the cost of federal loan debt retirement.

Expenses
Operating expenses were $1,383,147 and $1,256,660 for the calendar years 2015 and 2014, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased", "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses", and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,600 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of two components:

>Financial Statements
>Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in

Financial Overview (continued)

some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2015 and 2014 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 34 of this report.

Statement of Net Position Overview

The District was not required to have an audit under A-133 for 2015.

Statement of Net Position	2015	2014	Change	% Change
Capital Assets	4,091,895	4,230,460	(138,565)	(3.27%)
Current and other assets	1,434,758	1,440,179	(5,421)	(0.38%)
Other Assets	54,054	17,000	37,054	217.96%
Total Assets	5,580,707	5,687,639	(106,932)	(1.88%)
Long-term Liabilities	1,815,500	1,837,000	(21,500)	1.13%
Other Liabilities	525,704	503,870	21,834	(4.33%)
Total Liabilities	2,341,204	2,340,870	334	(0.01%)
Net Position:				
Invested in Capital Assets	2,233,894	2,372,460	(138,566)	(5.84%)
Restricted	19,800	- 0 -	19,800	0.00%
Unrestricted	986,309	974,309	12,000	1.23%
Total Net Position	3,240,003	3,346,769	(106,766)	(3.19%)

Financial Overview (continued)

Statement of Net Position Overview (continued)

The District was not required to have an audit under A-133 for 2014 but was for 2013.

Statement of Net Position	2014	2013	Change	% Change
Capital Assets	4,230,460	4,428,316	(197,856)	(4.47%)
Current and other assets	1,451,179	1,468,552	(17,373)	(1.18%)
Total Assets	5,681,639	5,896,868	(215,229)	(3.65%)
Long-term Liabilities	1,837,000	1,858,000	(21,000)	(1.13%)
Other Liabilities	503,870	236,233	267,637	113.29%
Total Liabilities	2,234,870	2,094,233	246,637	11.78%
Net Position:				
Invested in Capital Assets	2,372,460	2,570,316	(197,856)	(7.70%)
Unrestricted	974,309	1,232,319	(258,010)	(20.94%)
Total Net Position	3,346,769	3,802,635	(455,866)	(11.99%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev, Exp. and Changes in Net Position	2015	2014	Change	% Change
Operating Revenues	1,225,181	992,251	232,930	23.47%
Operating Expenses	1,383,147	1,256,660	126,487	10.07%
Operating Income/(Loss)	(157,966)	(264,409)	106,443	(40.26%)
Net Non-Operating Income	51,200	24,541	26,659	108.64%
Change in Net Position	(106,766)	(239,868)	133,102	55.49%

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev, Exp. and Changes in Net Position	2014	2013	Change	% Change
Operating Revenues	992,251	851,202	141,049	16.57%
Operating Expenses	1,256,660	993,423	263,237	26.50%
Operating Income/(Loss)	(264,409)	(142,221)	(122,188)	85.91%
Net Non-Operating Income	24,541	44,113	(19,572)	(44.37%)
Change in Net Position	(239,868)	(98,108)	(141,760)	(144.49%)

Assets
In 2015, the District's total assets decreased $106,932 from FY 2014. The Audit Report indicates the major decreases were in "Fixed Assets" due to the depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

In 2014, the District's total assets decreased $209,229 from FY 2013. The Audit Report indicates the major decreases were in "Fixed Assets" due to the depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

Liabilities
In 2015, the District's total liabilities decreased $166 from FY 2014. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". The principle payments on the loan from the U.S. Department of Agriculture began in 2015, as indicated by the "Current Portion of Noncurrent Liabilities".

In 2014, the District's total liabilities increased $246,637 from FY 2013. The Audit Report indicates the major changes were in "Accounts Payables", "Unearned Income" and "Accrued Pension Obligation". The principle payments on the loan from the U.S. Department of Agriculture did not begin until 2015, as indicated by the "Current Portion of Noncurrent Liabilities".

Net Assets
The District's assets exceeded its liabilities by $3,240,003 and $3,346,769 for fiscal years ended December 31, 2015 and 2014, respectively. This represents a decrease from fiscal year 2014 to 2015 of ($106,766) and 2013 to 2014 of ($239,868). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

Net Assets (continued)

cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets

The District's investments in capital assets as of December 31, 2015, 2014 and 2013 amounted to $4,091,895, $4,230,460 and $4,428,316 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included:

The District, through self funding, grants from Kentucky Infrastructure Authority and loans from the U.S. Department of Agriculture completed the following improvements to their system, in 2013:

- Upgrades to the water line and pump station;
- Built a 500,000 gallon elevated water storage tank;
- Installed a Supervisory Control and Data Acquisition System which controls and monitors the pump stations and tanks; and
- Installed an automated meter reading system which will allow the District to read meters via radio waves.

Debt Administration

Long-Term Debt
The District has entered into an agreement with the U. S. Department of Agriculture to borrow $1,668,000 and a subsequent $190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The repayment of principle began with a $21,000 principal payment in January 2015 and $21,500 in January 2016. The loan is a 40 year loan at 3.125% interest payable semi-annually.

Budget

Budget
KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water
The District, in 2013, completed a project which updated their water lines, storage capacity, and monitoring capability of much of their system.

Administrative and General
The District continues to experience an increase in health care expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future.

The District lost two employees in 2015 but did hire one replacement in September 2015. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary.

The District has experienced changes in the employer contribution rate to CERS for employee pension. In 2015, the employer share rate was 17.67% from July – December and changed to 17.06% for January – June, a 3.45% decrease. In 2014, the employer share rate was 18.89% for July – December and changed to 17.67% from January – June, a 6.46% decrease. These rates are expected to continue to fluxuate with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2015 & 2014

The Future (continued)

Overall
The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water lost was still at a very high rate averaging approximately 42% of purchased water throughout the year. Leaks in the old part of the system were the main source of these substantial losses. Management has taken action to find and repair leaks and the percentage loss dropped through the end of 2015. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

Farmdale Water District
Statement of Net Position
December 31, 2015 & 2014

ASSETS

CURRENT ASSETS	2015	(Restated) 2014
Cash and Cash Equivalents (Note 1)	$ 325,688	$ 240,308
Cash - Debt Reserve (Note 1)	19,800	-
Certificates of Deposit (Note 1)	959,489	1,061,924
Accounts Receivable (Note 1)	104,588	108,073
Inventory (Note 1)	12,649	14,303
Accrued Interest Receivable	641	440
Prepaid Expenses	11,903	15,131
TOTAL CURRENT ASSETS	1,434,758	1,440,179
CAPITAL ASSETS (Note 3)		
Land & Buildings	55,431	47,491
Equipment	150,609	143,676
Vehicles	51,568	29,462
Water Lines, Hydrants, Towers, & Meters	5,999,541	5,950,426
Accumulated Depreciation	(2,165,254)	(1,940,595)
TOTAL CAPITAL ASSETS	4,091,895	4,230,460
DEFERRED OUTFLOWS (Note 4)		
Contributions Subsequent to Measurement Date	54,054	17,000
TOTAL OTHER ASSETS (Deferred Outflows)		
TOTAL ASSETS	$ 5,580,707	$ 5,687,639

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Net Position
December 31, 2015 & 2014

LIABILITIES & DEFERRED INFLOWS

CURRENT LIABILITIES	2015	(Restated) 2014
Accounts Payable	$ 142,610	$ 148,229
Customer Deposits	37,315	39,315
Customer Deposits - Accrued Interest (Note 6)	3,550	5,286
Accrued Sales Tax	599	586
Accrued School Tax	2,408	2,552
Accrued Payroll Tax	4,840	4,724
Accrued Pension Expense (Note 4)	2,116	2,817
Accrued Loan Interest Payable (Note 9).	28,703	29,031
Current Portion of Noncurrent Liabilities	21,500	21,000
Unearned Income	11,510	17,330
TOTAL CURRENT LIABILITIES	255,151	270,870
NONCURRENT LIABILITIES		
U.S. Department of Agriculture (Note 9)	1,837,000	1,858,000
Current Portion of Noncurrent Liabilities	(21,500)	(21,000)
Net Pension Liability (Note 4)	257,923	210,000
TOTAL NONCURRENT LIABILITIES	2,073,423	2,047,000
DEFERRED INFLOWS (from pension activity)		
Net Difference Between Projected Actual Earnings on Pension Plan Investments	12,130	23,000
TOTAL DEFERRED INFLOWS	12,130	23,000
TOTAL LIABILITIES	2,340,704	2,340,870

NET POSITION

Invested in Capital Assets, net of related debt	2,233,894	2,372,460
Restricted Net Assets	19,800	-
Unrestricted Net Assets, as Adjusted (Note 10)	986,309	974,309
TOTAL NET POSITION	3,240,003	3,346,769
TOTAL LIABILITIES AND NET POSITION	$ 5,580,707	$ 5,687,639

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2015 & 2014

	2015	(Restated) 2014
OPERATING REVENUES		
User Fees:		
Water - Residential	$ 905,489	$ 760,310
Water - Commercial	142,334	93,012
Sewer Surcharge Fees	83,806	89,120
Tap-on Fees	5,660	4,912
Late Payment Penalty Income	39,433	35,816
Reconnect Fees	11,014	9,081
Reimbursement Income	37,445	-
TOTAL OPERATING REVENUES	1,225,181	992,251
OPERATING EXPENSES		
Water Purchased	656,163	506,732
Pumping Electricity	21,110	20,094
Payroll	172,041	180,520
Payroll Taxes	14,021	14,055
Employee Benefits	29,216	33,561
Retirement Benefits (Note 4)	24,111	26,147
Transmission and Distribution Expense	34,243	45,276
Administrative and General Expense	62,607	71,812
Interest Paid on Loans	57,406	58,062
Other Interest Expense	41	69
Water Testing	5,714	5,234
Maintenance & Repairs	17,813	19,129
Insurance & Workers' Comp	22,802	20,982
Taxes & Licenses	34,189	28,275
Bad Debts (Note 1)	7,011	3,829
Depreciation (Note 3)	224,659	222,883
TOTAL OPERATING EXPENSES	1,383,147	1,256,660
Operating Income	(157,966)	(264,409)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2015 & 2014

		(Restated)
NONOPERATING REVENUES (EXPENSES)	2015	2014
Sewer Fees Collected	518,055	526,965
Sewer Fees Paid	(474,900)	(505,268)
Interest Income	2,076	2,068
Other Income	5,969	776
TOTAL NONOPERATING REVENUES (EXPENSES)	51,200	24,541
Change in Net Position	(106,766)	(239,868)
Net Position - Beginning of Year	3,346,769	3,802,637
Cumulative Effect of Accounting Principle Change Relating to Pensions on Years Prior to December 31, 2014 (Note 10)	-	(216,000)
Net Position - End of Year	$ 3,240,003	$ 3,346,769

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Cash Flows
For the Years Ended December 31, 2015 & 2014

	2015	2014
Cash Flow from Operating Activities		
Cash received from users and customers	$ 1,202,460	$ 965,311
Cash payments to employees for services & benefits	(215,278)	(254,283)
Cash payments to suppliers of goods and services	(840,096)	(694,159)
Net Cash Provided (Used) by Operating Activities	147,086	16,869
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(21,000)	-
Purchase of equipment	(86,093)	(25,027)
Interest paid on Loans	(57,447)	(58,131)
Net Cash Provided (Used) by Capital & Related Financing Activities	(164,540)	(83,158)
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	518,055	526,965
Other non-operating income	5,969	775
Cash paid out from other non-operating expenses	(507,407)	(516,302)
Net Cash Provided (Used) by Noncapital Financing Activities	16,617	11,438
Cash Flows from Investing Activities		
Receipt of Interest	2,076	2,068
Redemption of a Certificates of Deposit	103,941	65,339
Net Cash Provided (Used) by Investing Activities	106,017	67,407
Net Change in Cash and Cash Equivalents	105,180	12,556
Cash and Cash Equivalents, Beginning of Year	240,308	227,752
Cash and Cash Equivalents, End of Year	$ 345,488	$ 240,308
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on hand	$ 75	$ 75
Cash Operations Account	291,408	175,700
Deposit account	34,205	36,653
Construction account	-	27,880
Debt Reserve Account	19,800	27,880
	$ 345,488	$ 268,188

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Cash Flows
For the Years Ended December 31, 2015 & 2014

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	2015	2014
Operating Income	$ (157,966)	$ (264,409)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	224,659	222,883
Bad Debts	7,011	3,829
Change in assets and liabilities		
Certificates of deposit	102,435	63,624
Accounts receivable	3,485	(17,529)
Inventory	1,654	(979)
Accrued interest receivable	(201)	(8)
Prepaid expenses	3,228	(4,179)
Accounts payable	(5,619)	2,639
Accrued payroll taxes payable	116	522
Customer deposits	(2,000)	(1,715)
Customer deposits - accrued interest	(1,736)	(426)
Accrued sales tax	13	208
Accrued school tax	(144)	718
Accrued pension expense	(701)	(6)
Unearned income	(5,820)	11,697
Accrued loan interest payable	(328)	-
USDA Loan Payable	(21,000)	-
Net Cash Provided by Operating Activities	$ 147,086	$ 16,869

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 & 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Operating revenues relate to the District's primary function of the collection of water sales. Non-operating revenues relate to all other revenue.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, 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 revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not include in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net asset use through external 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 – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District writes off accounts deemed uncollectible resulting from the customer's failure to pay. The amount written-off for the years ended December 31, 2015 and 2014 totaled $7,011 and $3,829, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 & 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District turns off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000. The District paid $21,000 in principle during 2015 and the balance at December 31, 2015 was $1,837,000.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Commission's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2015 and 2014. See Note 4 for full disclosure of activity.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSITS

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of $250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was $345,413 and $240,233 for the years ended December 31, 2015 and 2014, respectively. The carrying amount of the District's certificates of deposit was $959,489 and $1,061,924 for the years ended December 31, 2015 and 2014, respectively. The bank balances and certificates of deposit are covered by $250,000 of FDIC insurance. At various times throughout the year and at year-end, this $250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSITS (continued)

Bank Balances and Certificates of Deposits at December 31, 2015, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Book Value
Unrestricted					
Bank Balances	$ 325,688	$ -	$ -	$ 325,688	$ 325,688
Restrict Bank Balance	19,800	-	-	19,800	19,800
Certificates of Deposit	959,489	-	-	-	959,489
Total	$ 1,304,977	-	-	$ 345,488	$ 1,304,977

Bank Balances and Certificates of Deposits at December 31, 2014, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Book Value
Unrestricted					
Bank Balances	$ 240,308	$ -	$ -	$ 240,308	$ 240,308
Certificates of Deposit	1,061,924	-	-	-	1,061,924
Total	$ 1,302,232	-	-	$ 240,308	$ 1,302,232

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT (continued)

The following represents the activity for the year ended December 31, 2015:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 47,491	$ 143,676	$ 29,462	$ 5,950,426	$6,171,055
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	7,940	6,933	22,106	49,115	86,094
Ending	$ 55,431	$ 150,609	$ 51,568	$ 5,999,541	$ 6,257,149

The following represents the activity for the year ended December 31, 2014:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 47,491	$ 143,676	$ 28,562	$ 5,926,299	$6,146,028
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	-0-	-0-	900	24,127	25,027
Ending	$ 47,491	$ 143,676	$ 29,462	$ 5,950,426	$ 6,171,055

A summary of property and equipment and depreciation for the years ended December 31, 2015 and 2014 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2015	Property & Equipment	$6,257,149	$ 224,659	$ 2,165,254
FY 2014	Property & Equipment	$6,171,055	$ 222,883	$ 1,940,595

Land valued at $4,806 is not being depreciated.

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

Employees covered by benefit terms: At the measurement date of June 30, 2015 and 2014:

Estimated Inactive employees or beneficiaries currently receiving benefits	1
Estimated Inactive employees or beneficiaries not currently receiving benefits	1
Active employees	3
Total	5

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were $24,111 and $26,147 for the year ended December 31, 2015 and 2014, respectively. The District contributed 17.67% of employees' gross compensation to the plan from July – December and 17.06% from January to June for the year ended December 31, 2015 and 18.96% for July – December and 17.67% from January to June during the year ended December 31, 2014. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date. (See Note 10 for a restatement related to the net pension liability).

Actuarial Assumptions:

The total pension liability as of June 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent for June 30, 2015 and 3.5 percent for June 30, 2014.
Salary increases	Representative values of the assumed annual rates of future salary increases from 4.0% average for June 30, 2015 and 4.5% average for June 30, 2014 including inflation.
Investment rate of return	7.50% per annum @ June 30, 2015 and 7.75% at June 30, 2014 per annum, compounded annually for retirement and insurance benefits.

NOTE 4- EMPLOYEE RETIREMENT (continued)

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Table for other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 and 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2013 for June 30, 2015 and July 1, 2005 through June 30, 2008 for June 30, 2014. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. 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 (see chart below). 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 assumptions are intended to be long-term assumptions and are 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 long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50% for June 30, 2015 and 7.75 % for June 30, 2014 based on a blending of the factors described below:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
Domestic Equity	8.45%	30.00%
International Equity	8.85%	22.00%
Emerging Market Equity	10.50%	5.00%
Private Equity	11.25%	7 .00%
Real Estate	7.00%	5.00%
Core US Fixed Income	5.25%	10.00%
High Yield US Fixed Income	7.25%	5.00%
Non US Fixed Income	5.50%	5.00%
Commodities	7.75%	5.00%
TIPS	5.00%	5.00%
Cash	3.25%	1.00%
		100.00%

Discount Rate:

The discount rate used to measure the total pension liability was 7.50% for June 30, 2015 and 7.75 % for June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.50 percent for June 30, 2015, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District net pension liability - 2015	$ 339,409	$ 257,923	$ 185,928

NOTE 4 - EMPLOYEE RETIREMENT (continued)

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.75 percent for June 30, 2014, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District net pension liability - 2014	$ 276,346	$ 210,000	$ 151,382

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

For the year ended December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

The amount shown below for "Contributions Subsequent to the Measurement Date of June 30, 2015 and 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

	12/31/15	12/31/14	Total
Net Difference Between Projected Actual Earnings on Pension Plan Investments	$ (12,130)	$ (23,000)	$ (35,130)
Contributions Subsequent to the Measurement Date of June 30	$ 54,054	17,000	$ 71,054

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments related to pensions will be recognized in pension expense as follows:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Year Ended June 30:

2016	$ (3,033)
2017	(3,033)
2018	(3,032)
2019	(3,032)
	$ (12,130)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2015, the District contributed 17.67% from January – June and 17.06% thereafter. In 2014, the District contributed 18.89% from January through June and 17.67% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan $2,116 and $2,817 at the end of 2015 and 2014, respectively.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. 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:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, closed
Remaining Amortization Period	28 Years for June 30, 2015 and 30 Years for June 30, 2014
Asset Valuation Method	5-Year Smoothed Market
Inflation	3.25 Percent for June 30, 2015 and 3.50 Percent for June 30, 2014
Salary Increase	4.0 Percent Average for June 30, 2015 and 4.5 Percent, Average for June 30, 2014, Including Inflation
Investment Rate of Return	7.50 Percent for June 30, 2015 and 7.75 Percent for June 30, 2014, net of Pension Plan Investment Expense, Including Inflation

NOTE 4 - EMPLOYEE RETIREMENT (continued)

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 - WATER STORAGE TANK PROJECT

The District was awarded a combination of state and federal funds to build a new storage tank and water lines for a portion of their service area. The District began the construction phase in the summer of 2012 and completed the project in November 2013. The District estimated a cost of $3.39 million; the final cost was approximately $3.53 million. The funding for this project included a $1.858 million loan from the federal government Department of Agriculture, over $1.22 million in Kentucky Infrastructure Grants and $500,000 in District funds.

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%. The estimated accrued interest on these deposits at December 31, 2015 & 2014 was $3,550 and $5,286, respectively.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 & 2014

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2015 and 2014 by $5,660 and $4,912, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855 "Subsequent Events". The District evaluated events occurring between the end of its most recent year end and this report date, which is the date these financial statements were available to be issued and found no reportable events.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principle payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit $750 per month for the original loan and $75 per month for the subsequent loan until such time the account reaches $98,500. Management has opened this account and had a balance of $19,800 at December 31, 2015.

The District paid $21,000 of principle on the loan on January 1, 2015. In addition another $21,500 in principle is due on January 1, 2016. Total interest paid on this loan was $57,406 and $58,062 for December 31, 2015 and 2014, respectively.

The District's long-term debt at December 31, 2015 is detailed as follows:

	Principal Balance 12/31/14	Borrowings	Payments	Principal Balance 12/31/15	Current Portion	Long-Term Portion
USDA Loan	$1,858,000	-0-	$ 21,000	$ 1,837,000	$ 21,500	$ 1,815,500

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The District's long-term debt at December 31, 2014 is detailed as follows:

	Principal Balance 12/31/13	Borrowings	Payments	Principal Balance 12/31/14	Current Portion	Long-Term Portion
USDA Loan	$1,858,000	$ -0-	$ -0-	$ 1,858,000	$ 21,000	$ 1,837,000

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2016	$ 21,500	$ 56,734	$ 78,234
2017	22,500	56,031	78,531
2018	24,000	55,281	79,281
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021 - 2025	144,500	255,437	399,937
2026 – 2030	177,500	229,844	407,344
2031 - 2035	217,500	198,453	415,953
2036 – 2040	267,500	159,906	427,406
2041 – 2045	327,000	112,703	439,703
2046 – 2050	401,000	54,812	456,312
2051 – 2052	184,000	2,922	186,422
Total	$ 1,837,000	$ 1,290,358	$3,127,358

NOTE 10 – RESTATEMENT OF BEGINNING NET ASSETS RELATED TO CALENDAR YEAR 2014

The Board of Directors has adopted GASB 68. As a result the beginning net assets for calendar year ended December 31, 2014 was restated due to this pension information becoming available from County Employee's Retirement System for the first time. This information allowed the Commission the ability to record the accrued pension liability and better reflect the overall cost of the pension program. The cumulative effect of this change is adjusted against 2014 net assets as follows:

NOTE 10 – RESTATEMENT OF BEGINNING NET ASSETS RELATED TO CALENDAR YEAR 2014 (continued)

Net Assets – December 31, 2014, prior to restatement	$ 3,562,769
Pension Liability Adjustment	(216,000)
Net Assets – December 31, 2014 (Restated)	$ 3,346,769

NOTE 11 – RISK MANAGEMENT

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

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 1, 2016.

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 opinions 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 over financial reporting.

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 over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audit, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audit, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated June 1, 2016.

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.

Harrod & Associates, PSC
Frankfort, KY 40601

June 1, 2016

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

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KENTUCKY SOCIETY OF CPA'S

Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2016 and 2015, and the related notes to the 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 of material misstatement.

An audit includes 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Farmdale Water District as of December 31, 2016 and 2015, and the respective changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2017 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.

Harrod & Associates, PSC

Harrod & Associates, PSC
Frankfort, KY 40601

May 31, 2017
cys: 4

FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2016 & 2015

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May, 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013.

Financial Highlights

In 2016, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,108,032. Of this amount $2,015,815 was invested in Capital Assets, net of $29,700 restricted for debt retirement, and $1,062,517 was unrestricted. In 2016, the Board's net assets decreased ($131,971), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

In 2015, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,240,003. Of this amount $2,233,894 was invested in Capital Assets, net of $19,800 restricted for debt retirement, and $986,309 was unrestricted. In 2015, the Board's net assets decreased ($106,766), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

Revenues
Gross income from the sale of water, including tap on fees and reconnect fees totaled $1,203,810 and $1,225,181 for the calendar years 2016 and 2015, respectively. The Kentucky Public Service Commission (PSC) approved one rate increase in 2016 and two in 2015, all of these requests were in response to increases in the cost of water purchased from the Frankfort Plant Board. The rate increase in 2016 was effective in December, while in 2015, one of these increases was effective in January 2015 and the other in October 2015.

Expenses

Operating expenses were $1,378,739 and $1,383,147 for the calendar years 2016 and 2015, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased", "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses" and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,600 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of two components:

>Financial Statements
>Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in

Financial Overview (continued)

some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2016 and 2015 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 33 of this report.

Statement of Net Position Overview

The District was not required to have an audit under A-133 for 2016 or 2015.

Statement of Net Position	2016	2015	Change	% Change
Capital Assets	3,873,816	4,091,895	(218,079)	(5.33%)
Current and Other Asets	1,543,416	1,434,758	108,658	7.57%
Other Assets	61,301	54,054	7,247	13.41%
Total Assets	5,478,533	5,580,707	(102,174)	(1.83%)
Long-term Liabilities	1,793,000	1,815,500	(22,500)	(1.24%)
Other Liabilities	577,501	525,204	52,297	9.96%
Total Liabilities	2,370,501	2,340,704	29,797	1.27%
Net Position:				
Invested in Capital Assets	2,015,815	2,233,894	(218,079)	(9.76%)
Restricted	29,700	19,800	9,900	0.50%
Unrestricted	1,062,517	986,309	76,208	7.73%
Total Net Position	3,108,032	3,240,003	(131,971)	(4.07%)

Financial Overview (continued)

Statement of Net Position Overview (continued)
The District was not required to have an audit under A-133 for 2015 or 2014.

Statement of Net Position	2015	2014	Change	% Change
Capital Assets	4,091,895	4,230,460	(138,565)	(3.27%)
Current and other assets	1,434,758	1,440,179	(5,421)	(0.38%)
Other Assets	54,054	17,000	37,054	217.96%
Total Assets	5,580,707	5,687,639	(106,932)	(1.88%)
Long-term Liabilities	1,815,500	1,837,000	(21,500)	(1.13%)
Other Liabilities	525,704	503,870	21,834	4.33%
Total Liabilities	2,341,204	2,340,870	334	0.01%
Net Position:				
Invested in Capital Assets	2,233,894	2,372,460	(138,566)	(5.84%)
Restricted	19,800	- 0 -	19,800	0.00%
Unrestricted	986,309	974,309	12,000	1.23%
Total Net Position	3,240,003	3,346,769	(106,766)	(3.19%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev. Exp. and Changes in Net Position	2016	2015	Change	% Change
Operating Revenues	1,203,810	1,225,181	(21,371)	(1.74%)
Operating Expenses	1,378,739	1,383,147	(4,408)	(.32%)
Operating Income/(Loss)	(174,929)	(157,966)	(16,963)	(10.74%)
Net Non-Operating Income	42,958	51,200	(8,242)	(16.10%)
Change in Net Position	(131,971)	(106,766)	(25,205)	(23.61%)

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

Statement of Rev. Exp. and Changes in Net Position	2015	2014	Change	% Change
Operating Revenues	1,225,181	992,251	232,930	23.47%
Operating Expenses	1,383,147	1,256,660	126,487	10.07%
Operating Income/(Loss)	(157,966)	(264,409)	106,443	40.26%
Net Non-Operating Income	51,200	24,541	26,659	108.64%
Change in Net Position	(106,766)	(239,868)	133,102	55.49%

Assets
In 2016, the District's total assets decreased $102,174 from FY 2015. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

In 2015, the District's total assets decreased $106,932 from FY 2014. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decrease was in "Certificates of Deposits" used to meet normal operating expenses.

Liabilities
In 2016, the District's total liabilities increased $29,797 from FY 2015. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". Accounts Payable increased $35,128 which explains the increase.

In 2015, the District's total liabilities increased $334 from FY 2014. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". The principle payments on the loan from the U.S. Department of Agriculture began in 2015, as indicated by the "Current Portion of Noncurrent Liabilities".

Net Assets
The District's assets exceeded its liabilities by $3,108,032 and $3,240,003 for fiscal years ended December 31, 2016 and 2015, respectively. This represents a decrease from fiscal year 2015 to 2016 of ($131,971) and 2014 to 2015 of ($106,766). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

Net Assets (continued)
cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets
The District's investments in capital assets as of December 31, 2016, 2015 and 2014 amounted to $3,873,816, $4,091,895, and $4,230,460 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included:

The District, through self funding, grants from Kentucky Infrastructure Authority and loans from the U.S. Department of Agriculture completed the following improvements to their system in 2013:

- Upgrades to the water line and pump station;
- Built a 500,000 gallon elevated water storage tank;
- Installed a Supervisory Control and Data Acquisition System which controls and monitors the pump stations and tanks; and
- Installed an automated meter reading system which will allow the District to read meters via radio waves.

Debt Administration

Long-Term Debt

The District has entered into an agreement with the U. S. Department of Agriculture to borrow $1,668,000 and a subsequent $190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The repayment of principle began with a $21,000 principal payment in January 2015 and $21,500 in January 2016. The loan is a 40 year loan at 3.125% interest payable semi-annually.

Budget

Budget

KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

The District, in 2013, completed a project which updated their water lines, storage capacity, and monitoring capability of much of their system.

Administrative and General

The District continues to experience an increase in health care expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future.

The District lost two employees in 2015 but did hire one replacement in September 2015. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary.

The District has experienced changes in the employer contribution rate to CERS for employee pension. The District contributed 18.68% of employees' gross compensation to the plan from July – December and 17.06% from January - June for the year ended December 31, 2016 and 17.67% for July – December and 17.06% from January - June during the year ended December 31, 2015. These rates are expected to continue to fluxuate with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Future (continued)

Overall

The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water loss was still at a very high rate averaging approximately 39.2% of purchased water throughout the year. Leaks in the old part of the system were the main source of these substantial losses. Management has taken action to find and repair leaks and the percentage loss dropped through the end of 2016. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016 & 2015

ASSETS & DEFERRED OUTFLOWS

CURRENT ASSETS	2016	2015
Cash and Cash Equivalents (Note 1)	$ 468,299	$ 325,688
Cash - Debt Reserve (Note 1)	29,700	19,800
Certificates of Deposit (Note 1)	922,352	959,489
Accounts Receivable (Note 1)	94,530	104,588
Inventory (Note 1)	14,014	12,649
Accrued Interest Receivable	611	641
Prepaid Expenses	13,910	11,903
TOTAL CURRENT ASSETS	1,543,416	1,434,758
CAPITAL ASSETS (Note 3)		
Land & Buildings	55,431	55,431
Equipment	150,609	150,609
Vehicles	37,713	51,568
Water Lines, Hydrants, Towers, & Meters	6,010,029	5,999,541
Accumulated Depreciation	(2,379,966)	(2,165,254)
TOTAL CAPITAL ASSETS	3,873,816	4,091,895
DEFERRED OUTFLOWS (Note 4)		
Contributions Subsequent to Measurement Date	61,301	54,054
TOTAL DEFERRED OUTFLOWS	61,301	54,054
TOTAL ASSETS	$ 5,478,533	$ 5,580,707

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016 & 2015

LIABILITIES & DEFERRED INFLOWS

CURRENT LIABILITIES	2016	2015
Accounts Payable	$ 177,738	$ 142,610
Customer Deposits	39,965	37,315
Customer Deposits - Accrued Interest (Note 6)	3,431	3,550
Accrued Sales Tax	600	599
Accrued School Tax	2,362	2,408
Accrued Payroll Tax	5,625	4,840
Accrued Pension Expense (Note 4)	2,652	2,116
Accrued Loan Interest Payable (Note 9).	28,367	28,703
Current Portion of Noncurrent Liabilities (Note 9)	22,500	21,500
Unearned Income	6,820	11,510
TOTAL CURRENT LIABILITIES	290,060	255,151
NONCURRENT LIABILITIES		
U.S. Department of Agriculture (Note 9)	1,815,500	1,837,000
Current Portion of Noncurrent Liabilities	(22,500)	(21,500)
Net Pension Liability (Note 4)	261,970	257,923
TOTAL NONCURRENT LIABILITIES	2,054,970	2,073,423
DEFERRED INFLOWS (from pension activity)		
Net Difference Between Projected Actual Earnings on Pension Plan Investments	25,471	12,130
TOTAL DEFERRED INFLOWS	25,471	12,130
TOTAL LIABILITIES	2,370,501	2,340,704

NET POSITION

Invested in Capital Assets, net of related debt	2,015,815	2,233,894
Restricted Net Assets	29,700	19,800
Unrestricted Net Assets, as Adjusted (Note 10)	1,062,517	986,309
TOTAL NET POSITION	3,108,032	3,240,003
TOTAL LIABILITIES AND NET POSITION	$ 5,478,533	$ 5,580,707

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

OPERATING REVENUES	2016	2015
User Fees:		
Water - Residential	$ 913,105	$ 905,489
Water - Commercial	143,738	142,334
Sewer Surcharge Fees	85,183	83,806
Tap-on Fees	11,320	5,660
Late Payment Penalty Income	39,648	39,433
Reconnect Fees	10,516	11,014
Gain on Sale of Fixed Assets	300	-
Reimbursement Income	-	37,445
TOTAL OPERATING REVENUES	1,203,810	1,225,181
OPERATING EXPENSES		
Water Purchased	638,514	656,163
Pumping Electricity	22,012	21,110
Payroll	161,301	172,041
Payroll Taxes	12,996	14,021
Employee Benefits	28,398	29,216
Retirement Benefits (Note 4)	31,793	24,111
Transmission and Distribution Expense	68,018	34,243
Administrative and General Expense	60,064	62,607
Interest Paid on Loans	56,734	57,406
Other Interest Expense	139	41
Water Testing	4,280	5,714
Maintenance & Repairs	5,357	17,813
Insurance & Workers' Comp	21,924	22,802
Taxes & Licenses	35,663	34,189
Bad Debts (Note 1)	2,979	7,011
Depreciation (Note 3)	228,567	224,659
TOTAL OPERATING EXPENSES	1,378,739	1,383,147
Operating Income	(174,929)	(157,966)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

NONOPERATING REVENUES (EXPENSES)	**2016**	**2015**
Sewer Fees Collected	523,346	518,055
Sewer Fees Paid	(482,707)	(474,900)
Interest Income	1,851	2,076
Other Income	468	5,969
TOTAL NONOPERATING REVENUES (EXPENSES)	42,958	51,200
Change in Net Position	(131,971)	(106,766)
Net Position - Beginning of Year	3,240,003	3,346,769
Net Position - End of Year	$ 3,108,032	$ 3,240,003

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

	2016	2015
Cash Flow from Operating Activities		
Cash received from users and customers	$ 1,198,339	$ 1,202,460
Cash payments to employees for services & benefits	(224,347)	(215,278)
Cash payments to suppliers of goods and services	(838,113)	(840,096)
Net Cash Provided (Used) by Operating Activities	135,879	147,086
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(21,000)	(21,000)
Purchase of equipment	(10,488)	(86,093)
Interest paid on Loans	(57,070)	(57,447)
Net Cash Provided (Used) by Capital & Related Financing Activities	(88,558)	(164,540)
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	523,346	518,055
Other non-operating income	24,015	5,969
Cash paid out from other non-operating expenses	(482,707)	(507,407)
Net Cash Provided (Used) by Noncapital Financing Activities	64,654	16,617
Cash Flows from Investing Activities		
Receipt of Interest	1,882	2,076
Redemption of a Certificates of Deposit	38,654	103,941
Net Cash Provided (Used) by Investing Activities	40,536	106,017
Net Change in Cash and Cash Equivalents	152,511	105,180
Cash and Cash Equivalents, Beginning of Year	345,488	240,308
Cash and Cash Equivalents, End of Year	$ 497,999	$ 345,488
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	$ 75	$ 75
Cash Operations Account	430,434	291,408
Deposit Account	37,790	34,205
Debt Reserve Account	29,700	19,800
	$ 497,999	$ 345,488

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	2016	2015
Operating Income	$ (174,929)	$ (157,966)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	228,567	224,659
Bad Debts	2,979	7,011
Change in assets and liabilities		
Certificates of deposit	37,137	102,435
Accounts receivable	10,058	3,485
Inventory	(1,365)	1,654
Accrued interest receivable	30	(201)
Prepaid expenses	(2,007)	3,228
Accounts payable	35,128	(5,619)
Accrued payroll taxes payable	785	116
Customer deposits	2,650	(2,000)
Customer deposits - accrued interest	(119)	(1,736)
Accrued sales tax	1	13
Accrued school tax	(46)	(144)
Accrued pension expense	536	(701)
Unearned income	(4,690)	(5,820)
Accrued loan interest payable	(336)	(328)
USDA Loan Payable	1,500	(21,000)
Net Cash Provided by Operating Activities	$ 135,879	$ 147,086

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 & 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Operating revenues relate to the District's primary function of the collection of water sales. Non-operating revenues relate to all other revenue.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, 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 revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net asset use through external 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 – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District writes off accounts deemed uncollectible resulting from the customer's failure to pay. The amount written-off for the years ended December 31, 2016 and 2015 totaled $2,979 and $7,011, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10^{th} of the next month to pay their bill in full without the imposition of a penalty. After the 10^{th}, the customers have until the 20^{th} of the month to pay in full. If unpaid by the 20^{th}, the District may turn off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000. The District paid $21,500 and $21,000 in principle during calendar years ended December 31, 2016 & 2015, respectively and the loan balance was $1,815,500 and $1,837,000 at December 31, 2016 & 2015, respectively.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Commission's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2016 and 2015. See Note 4 for full disclosure of activity.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of $250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was $497,999 and $345,488 for the years ended December 31, 2016 and 2015, respectively. The carrying amount of the District's certificates of deposit was $922,352 and $959,489 for the years ended December 31, 2016 and 2015, respectively. The bank balances and certificates of deposit are covered by $250,000 of FDIC insurance. At various times throughout the year and at year-end, this $250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT (continued)

Bank Balances and Certificates of Deposit at December 31, 2016, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Book Value
Unrestricted Bank Balances	$ 468,299	$ -	$ -	$ 468,299	$ 468,299
Restrict Bank Balance	29,700	-	-	29,700	29,700
Certificates of Deposit	922,352	-	-	-	922,352
Total	$ 1,420,351	$ -	$ -	$ 497,999	$ 1,420,351

Bank Balances and Certificates of Deposit at December 31, 2015, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Book Value
Unrestricted Bank Balances	$ 325,688	$ -	$ -	$ 325,688	$ 325,688
Restrict Bank Balance	19,800	-	-	19,800	19,800
Certificates of Deposit	959,489	$ -	-	-	959,489
Total	$ 1,304,977	-	-	$ 345,488	$ 1,304,977

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT (continued)

The following represents the activity for the year ended December 31, 2016:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 51,568	$ 5,999,541	$6,257,149
Deletions	-0-	-0-	(13,855)	-0-	(13,855)
Additions	- 0-	-0-	-0-	10,488	10,488
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,010,029	$ 6,253,782

The following represents the activity for the year ended December 31, 2015:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 47,491	$ 143,676	$ 29,462	$ 5,950,426	$6,171,055
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	7,940	6,933	22,106	49,115	86,094
Ending	$ 55,431	$ 150,609	$ 51,568	$ 5,999,541	$ 6,257,149

A summary of property and equipment and depreciation for the years ended December 31, 2016 and 2015 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2016	Property & Equipment	$6,253,782	$ 228,567	$ 2,379,966
FY 2015	Property & Equipment	$6,257,149	$ 224,659	$ 2,165,254

Land valued at $4,806 is not being depreciated.

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

Employees covered by benefit terms: At the measurement date of June 30, 2016 and 2015:

Estimated Inactive employees or beneficiaries currently receiving benefits	1
Estimated Inactive employees or beneficiaries not currently receiving benefits	1
Active employees	3
Total	5

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were $31,793 and $24,111 for the year ended December 31, 2016 and 2015, respectively. The District contributed 18.68% of employees' gross compensation to the plan from July – December and 17.06% from January - June for the year ended December 31, 2016 and 17.67% for July – December and 17.06% from January - June during the year ended December 31, 2015. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

Actuarial Assumptions:

The total pension liability as of June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent for June 30, 2016 and June 30, 2015.
Salary increases	Representative values of the assumed annual rates of future salary increases from 4.0% average for June 30, 2016 and June 30, 2015 including inflation.
Investment rate of return	7.50% per annum @ June 30, 2016 and June 30, 2015 net of pension plan investment expense, including inflation.

NOTE 4- EMPLOYEE RETIREMENT (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 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 actuarial assumptions used in the June 30, 2016 and June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2015. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. 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 (see chart below). 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 assumptions are intended to be long-term assumptions and are 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 long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50% for June 30, 2016 and June 30, 2015 based on a blending of the factors described below:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
Domestic Equity	8.45%	30.00%
International Equity	8.85%	22.00%
Emerging Market Equity	10.50%	5.00%
Private Equity	11.25%	7 .00%
Real Estate	7.00%	5.00%
Core US Fixed Income	5.25%	10.00%
High Yield US Fixed Income	7.25%	5.00%
Non US Fixed Income	5.50%	5.00%
Commodities	7.75%	5.00%
TIPS	5.00%	5.00%
Cash	3.25%	1.00%
		100.00%

Discount Rate:

The discount rate used to measure the total pension liability was 7.50% for June 30, 2016 and June 30, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.50 percent for June 30, 2016, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District net pension liability - 2016	$ 296,899	$ 261,970	$ 227,041

NOTE 4 - EMPLOYEE RETIREMENT (continued)

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.50 percent for June 30, 2015, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District net pension liability - 2015	$ 292,312	$ 257,923	$ 223,534

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

For the year ended December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

The amount shown below for "Contributions Subsequent to the Measurement Date of June 30," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

	12/31/16	12/31/15	Total
Net Difference Between Projected Actual Earnings on Pension Plan Investments	$ (25,471)	$ (12,130)	$ (37,601)
Contributions Subsequent to the Measurement Date of June 30	$ 61,301	$ 54,054	$ 115,355

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments related to pensions will be recognized in pension expense as follows:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Year Ended June 30:

2017	$	(3,033)
2018		(3,033)
2019		(3,032)
	$	(9,098)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2016, the District contributed 17.06% from January – June and 18.68% thereafter. In 2015, the District contributed 17.67% from January - June and 17.06% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan $2,652 and $2,116 at December 31, 2016 and 2015, respectively.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2015, determined as of July 1, 2013. 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:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, closed
Remaining Amortization Period	28 Years for June 30, 2016 and 30 Years for June 30, 2015
Asset Valuation Method	5-Year Smoothed Market
Inflation	3.25 Percent for June 30, 2016 & June 30, 2015
Salary Increase	4.0 Percent Average for June 30, 2016 and June 30, 2015, Including Inflation
Investment Rate of Return	7.50 Percent for June 30, 2016 and for June 30, 2015, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age

NOTE 4 - EMPLOYEE RETIREMENT (continued)

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 - WATER STORAGE TANK PROJECT

The District was awarded a combination of state and federal funds to build a new storage tank and water lines for a portion of their service area. The District began the construction phase in the summer of 2012 and completed the project in November 2013. The District estimated a cost of $3.39 million; the final cost was approximately $3.53 million. The funding for this project included a $1.858 million loan from the federal government Department of Agriculture, over $1.22 million in Kentucky Infrastructure Grants and $500,000 in District funds. No federal funds were spent in the year ended December 31, 2016.

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%. The estimated accrued interest on these deposits at December 31, 2016 & 2015 was $3,431 and $3,550, respectively.

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2016 and 2015 by $11,320 and $5,660, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855-10-50-1 "Subsequent Events". The Organization evaluated events occurring between the end of its most recent year end and this report date. Management believes no significant events occurred subsequent to the date of this report which is the date the financial statements were available to be issued, except effective July 1, 2017 the District will collect $3 for billing sewer bills instead of 15% of the total bill. The effect of this change is not known.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principle payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit $750 per month for the original loan and $75 per month for the subsequent loan until such time the account reaches $98,500. Management has opened this account and had a balance of $29,700 at December 31, 2016 and $19,800 at December 31, 2015.

The District paid $21,500 of principle on January 1, 2016 and $21,000 of principle on the loan on January 1, 2015. In addition another $22,500 in principle is due on January 1, 2017. Total interest paid on this loan was $56,734 and $57,406 for December 31, 2016 and 2015, respectively.

The District's long-term debt at December 31, 2016 is detailed as follows:

	Principal Balance 12/31/15	Borrowings	Payments	Principal Balance 12/31/16	Current Portion	Long-Term Portion
USDA Loan	$1,837,000	-0-	$ 21,500	$ 1,815,500	$ 22,500	$ 1,793,000

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The District's long-term debt at December 31, 2015 is detailed as follows:

	Principal Balance 12/31/14	Borrowings	Payments	Principal Balance 12/31/15	Current Portion	Long-Term Portion
USDA Loan	$1,858,000	-0-	$ 21,000	$ 1,837,000	$ 21,500	$ 1,815,500

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2017	22,500	56,031	78,531
2018	24,000	55,281	79,281
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021	26,500	52,891	79,391
2022 - 2026	150,500	250,734	401,234
2027 – 2031	185,000	224,063	409,063
2032 - 2036	226,500	191,375	417,875
2037 – 2041	278,500	151,203	429,703
2042 – 2046	340,500	102,062	442,562
2047 – 2051	418,000	41,750	459,750
2052	93,500	- 0 -	93,500
Total	$ 1,815,500	$ 1,233,625	$3,049,125

NOTE 10 – RISK MANAGEMENT

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

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 31, 2017.

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 opinions 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 over financial reporting.

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 over financial reporting 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audit, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audit, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated May 31, 2017.

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.

Harrod & Associates, PSC

Harrod & Associates, PSC
Frankfort, KY 40601

May 31, 2017

REQUIRED SUPPLEMENTAL INFORMATION

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601
REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2016 & 2015

SCHEDULE OF FARMDALE WATER DISTRICT NET PENSION LIABILITY AND RELATED RATIOS BASED ON PARTICIPATION IN THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS

	2016	2015
Total Net Pension Liability for County Employees Retirement System (in thousands)	$4,299,525	$3,244,377
Employer's Proportion (Percentage) of Net Pension Liability	.00532%	.00600%
Employer's Proportion (Amount) of Net Pension Liability	$ 261,970	$ 257,923
Employer's Covered-Employer Payroll	$ 120,993	$ 138,847
Employer's Proportionate Share (Amount) of the Net Pension Liability as A Percentage of Employer's Covered-Employer Payroll	216.52%	185.76%
Total Pension Plan's Fiduciary Net Position (in thousands)	$ 6,440,800	$ 6,528,146
Total Pension Plan's Pension Liability (in thousands)	$10,740,325	$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	59.97%	66.80%

SCHEDULE OF FARMDALE WATER DISTRICT CONTRIBUTIONS BASED ON PARTICIPATION IN THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS

	2016	2015
Actuarially Determined Contribution	$ 15,116	$54,050
Contributions in Relation to the Actuarially Determined Contribution	26,755	31,828
Contribution Deficiency (Excess)	$(11,639)	$ 22,222
Covered-Employee Payroll	$120,993	$138,847
Contributions as a Percentage of Covered-Employee Payroll	22.11%	27.96%

NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS INFORMATION

Valuation Date: Actuarially determined contribution rates for 2016 were calculated based on June 30, 2015 actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 Years
Asset Valuation	5-Year Smoothed Market
Inflation	3.25 Percent
Salary Increases	4.00%
Investment Rate of Return	7.5 Percent, Net of Investment Expense, Including Inflation
Retirement Age	65 Years or 27 Years of Service Regardless of Age

See Independent Auditor's Report

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

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KENTUCKY SOCIETY OF CPA'S

Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Farmdale Water Districts 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Farmdale Water District as of December 31, 2017 and 2016, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, the Schedule of the Districts Proportionate Share of the CERS Net Pension Liability on page 39 and Schedule of Contributions to CERS on page 40 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 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 solely 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 the effectiveness of the Districts 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.

Harrod & Associates, PSC
Frankfort, KY 40601

May 29, 2018
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FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2017 & 2016

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May, 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013. In addition, beginning in August of 2017 the District installed two master meters in order to detect water leaks and manage the water loss the District has been experiencing.

Financial Highlights

In 2017, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,929,535. Of this amount $1,825,836 was invested in Capital Assets, $39,600 restricted for debt retirement, and $1,064,099 was unrestricted. In 2017, the Board's net assets decreased ($178,497), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

In 2016, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,108,032. Of this amount $2,015,815 was invested in Capital Assets, $29,700 restricted for debt retirement, and $1,062,517 was unrestricted. In 2016, the Board's net assets decreased ($131,971), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

Revenues

Gross income from the sale of water, including tap on fees and reconnect fees totaled $1,231,246 and $1,203,810 for the calendar years 2017 and 2016 respectively. The Kentucky Public Service Commission (PSC) approved one rate increase each in 2017 and 2016, all of these requests were in response to increases in the cost of water purchased from the Frankfort Plant Board. The rate increase in 2017 was effective in November, while in 2016, the increase was effective in December.

Expenses
Operating expenses were $1,457,552 and $1,378,739 for the calendar years 2017 and 2016, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased", "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses" and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,650 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of two components:

>Financial Statements
>Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in

Financial Overview (continued)

some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2017 and 2016 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 35 of this report.

Statement of Net Position Overview

The District was not required to have an audit under A-133 for 2017 or 2016.

Statement of Net Position	2017	2016	Change	% Change
Capital Assets	3,684,320	3,873,816	(189,496)	(4.89%)
Current and Other Assets	1,555,878	1,543,416	12,462	0.81%
Other Assets	88,849	61,301	27,548	44.94%
Total Assets	5,329,047	5,478,533	(149,486)	(2.73%)
Long-term Liabilities	1,769,000	1,793,000	(24,000)	(1.34%)
Other Liabilities	630,512	577,501	53,011	9.18%
Total Liabilities	2,399,512	2,370,501	29,011	1.22%
Net Position:				
Invested in Capital Assets	1,826,318	2,015,815	(189,497)	(9.40%)
Restricted	39,600	29,700	9,900	33.33%
Unrestricted	1,063,617	1,062,517	1,100	.10%
Total Net Position	2,929,535	3,108,032	(178,497)	(5.74%)

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2017 & 2016

Financial Overview (continued)

Statement of Net Position Overview (continued)
The District was not required to have an audit under A-133 for 2016 or 2015.

Statement of Net Position	2016	2015	Change	% Change
Capital Assets	3,873,816	4,091,895	(218,079)	(5.33%)
Current and other assets	1,543,416	1,434,758	108,658	7.57%
Other Assets	61,301	54,054	7,247	13.41%
Total Assets	5,478,533	5,580,707	(102,174)	(1.83%)
Long-term Liabilities	1,793,000	1,815,500	(22,500)	(1.24%)
Other Liabilities	577,501	525,704	52,297	9.96%
Total Liabilities	2,370,501	2,340,704	29,797	1.27%
Net Position:				
Invested in Capital Assets	2,015,815	2,233,894	(218,079)	(9.76%)
Restricted	29,700	19,800	9,800	0.50%
Unrestricted	1,062,517	986,309	76,208	7.73%
Total Net Position	3,108,032	3,240,003	(131,971)	(4.07%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev. Exp. and Changes in Net Position	2017	2016	Change	% Change
Operating Revenues	1,231,246	1,203,810	27,436	2.28%
Operating Expenses	1,457,552	1,378,739	78,813	5.72%
Operating Income/(Loss)	(226,306)	(174,929)	(51,377)	(29.37%)
Net Non-Operating Income	47,809	42,958	4,851	11.29%
Change in Net Position	(178,497)	(131,971)	(46,526)	(35.25%)

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

Statement of Rev. Exp. and Changes in Net Position	2016	2015	Change	% Change
Operating Revenues	1,203,810	1,225,181	(21,371)	(1.74%)
Operating Expenses	1,378,739	1,383,147	(4,408)	(.32%)
Operating Income/(Loss)	(174,929)	(157,966)	(16,963)	(10.74%)
Net Non-Operating Income	42,958	51,200	(8,242)	(16.10%)
Change in Net Position	(131,971)	(106,766)	(25,205)	(23.61%)

Assets
In 2017, the District's total assets decreased $149,486 from FY 2016. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Cash" used to meet normal operating expenses.

In 2016, the District's total assets decreased $102,174 from FY 2015. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

Liabilities
In 2017, the District's total liabilities increased $29,011 from FY 2016. The Audit Report indicates the major changes were in "Net Pension Liability" and "Deferred Inflows". Net Pension Liability increased $57,328 which explains the increase.

In 2016, the District's total liabilities increased $29,797 from FY 2015. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". Accounts Payable increased $35,128 which explains the increase.

Net Assets
The District's assets exceeded its liabilities by $2,929,535 and $3,108,032 for fiscal years ended December 31, 2017 and 2016, respectively. This represents a decrease from fiscal year 2016 to 2017 of ($178,497) and 2015 to 2016 of ($131,971). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

Net Assets (continued)

cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets

The District's investments in capital assets as of December 31, 2017, 2016 and 2015 amounted to \$3,684,320, \$3,873,816, and \$4,091,895 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included:

The District, through self funding, grants from Kentucky Infrastructure Authority and loans from the U.S. Department of Agriculture completed the following improvements to their system in 2013:

- Upgrades to the water line and pump station;
- Built a 500,000 gallon elevated water storage tank;
- Installed a Supervisory Control and Data Acquisition System which controls and monitors the pump stations and tanks; and
- Installed an automated meter reading system which will allow the District to read meters via radio waves.

Debt Administration

Long-Term Debt

The District has entered into an agreement with the U. S. Department of Agriculture to borrow $1,668,000 and a subsequent $190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The District repaid principle of $22,500 principal payment in January 2017 and $21,500 in January 2016. The loan is a 40 year loan at 3.125% interest payable semi-annually.

Budget

Budget

KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

The District, in 2017, installed completed a project which updated their ability to track water usage and loses for much of their system.

Administrative and General

The District continues to experience an increase in health care expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future.

The District currently had four full-time employees in 2016 and 2017. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary.

The District has experienced changes in the employer contribution rate to CERS for employee pension. The District contributed 19.18% of employees' gross compensation to the plan from July – December and 18.68% from January - June for the year ended December 31, 2017 and 18.68% for July – December and 17.67% from January - June during the year ended December 31, 2016. These rates are expected to continue to fluxuate with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Kentucky Retirement System Board of Trustees had originally set the contribution rate effective July 1, 2018 at 28.05%, however, with the passage of House Bill 362, the rate increases were limited to 12% per fiscal year. The rate for July 1, 2018 through June 30, 2019 is 21.48%.

The Future (continued)

Overall

The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water loss was still at a very high rate averaging approximately 35.9% of purchased water throughout the year. Leaks in the old part of the system were the main source of these substantial losses. Management has taken action to find and repair leaks and the percentage loss dropped through the end of 2017. In fact, in March 2018 the District discovered a leak underneath U.S. 127 South which was losing approximately 150,000 gallons per day, this discovery should significantly reduce their water loss. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017 & 2016

ASSETS

CURRENT ASSETS	2017	2016
Cash and Cash Equivalents (Note 1)	$ 462,426	$ 468,299
Cash - Debt Reserve (Note 9)	39,600	29,700
Certificates of Deposit (Note 1)	923,732	922,352
Accounts Receivable (Note 1)	96,036	94,530
Inventory (Note 1)	18,621	14,014
Accrued Interest Receivable	988	611
Prepaid Expenses	14,475	13,910
TOTAL CURRENT ASSETS	1,555,878	1,543,416
CAPITAL ASSETS (Note 3)		
Land & Buildings	55,431	55,431
Equipment	150,609	150,609
Vehicles	37,713	37,713
Water Lines, Hydrants, Towers, & Meters	6,048,617	6,010,029
Accumulated Depreciation	(2,608,050)	(2,379,966)
TOTAL CAPITAL ASSETS	3,684,320	3,873,816
DEFERRED OUTFLOWS (Note 4)		
Contributions Subsequent to Measurement Date	88,849	61,301
TOTAL DEFERRED OUTFLOWS	88,849	61,301
TOTAL ASSETS	$ 5,329,047	$ 5,478,533

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017 & 2016

LIABILITIES

CURRENT LIABILITIES	2017	2016
Accounts Payable	$ 160,984	$ 177,738
Customer Deposits	34,805	39,965
Customer Deposits - Accrued Interest (Note 6)	1,052	3,431
Accrued Sales Tax	545	600
Accrued School Tax	2,472	2,362
Accrued Payroll Tax	6,001	5,625
Accrued Pension Expense (Note 4)	3,258	2,652
Accrued Loan Interest Payable (Note 9).	28,016	28,367
Current Portion of Noncurrent Liabilities (Note 9)	24,000	22,500
Unearned Income	7,538	6,820
TOTAL CURRENT LIABILITIES	268,671	290,060
NONCURRENT LIABILITIES		
U.S. Department of Agriculture (Note 9)	1,793,000	1,815,500
Current Portion of Noncurrent Liabilities	(24,000)	(22,500)
Net Pension Liability (Note 4)	319,298	261,970
TOTAL NONCURRENT LIABILITIES	2,088,298	2,054,970
DEFERRED INFLOWS (from pension activity)		
Net Difference Between Projected Actual Earnings on Pension Plan Investments	42,543	25,471
TOTAL DEFERRED INFLOWS	42,543	25,471
TOTAL LIABILITIES	2,399,512	2,370,501

NET POSITION

	2017	2016
Invested in Capital Assets, net of related debt	1,826,318	2,015,815
Restricted Net Assets	39,600	29,700
Unrestricted Net Assets, as Adjusted (Note 10)	1,063,617	1,062,517
TOTAL NET POSITION	2,929,535	3,108,032
TOTAL LIABILITIES AND NET POSITION	$ 5,329,047	$ 5,478,533

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

OPERATING REVENUES	2017	2016
User Fees:		
Water - Residential	$ 943,931	$ 913,105
Water - Commercial	147,321	143,738
Sewer Surcharge Fees	83,500	85,183
Tap-on Fees	9,462	11,320
Late Payment Penalty Income	37,860	39,648
Reconnect Fees	9,172	10,516
Gain on Sale of Fixed Assets	-	300
TOTAL OPERATING REVENUES	1,231,246	1,203,810
OPERATING EXPENSES		
Water Purchased	655,527	638,514
Pumping Electricity	22,469	22,012
Payroll	163,007	161,301
Payroll Taxes	13,644	12,996
Employee Benefits	32,636	28,398
Retirement Benefits (Note 4)	72,322	31,793
Transmission and Distribution Expense	42,364	68,018
Administrative and General Expense	62,954	60,064
Interest Paid on Loans	56,031	56,734
Other Interest Expense	195	139
Water Testing	5,026	4,280
Maintenance & Repairs	43,441	5,357
Insurance & Workers' Comp	21,124	21,924
Taxes & Licenses	36,521	35,663
Bad Debts (Note 1)	2,206	2,979
Depreciation (Note 3)	228,085	228,567
TOTAL OPERATING EXPENSES	1,457,552	1,378,739
Operating Income	(226,306)	(174,929)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

NONOPERATING REVENUES (EXPENSES)	**2017**	**2016**
Sewer Fees Collected	552,537	523,346
Sewer Fees Paid	(508,193)	(482,707)
Interest Income	2,269	1,851
Other Income	1,196	468
TOTAL NONOPERATING REVENUES (EXPENSES)	47,809	42,958
Change in Net Position	(178,497)	(131,971)
Net Position - Beginning of Year	3,108,032	3,240,003
Net Position - End of Year	$ 2,929,535	$ 3,108,032

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

	2017	2016
Cash Flow from Operating Activities		
Cash received from users and customers	$ 1,220,442	$ 1,198,339
Cash payments to employees for services & benefits	(237,391)	(224,347)
Cash payments to suppliers of goods and services	(964,741)	(838,113)
Net Cash Provided (Used) by Operating Activities	18,310	135,879
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(22,500)	(21,000)
Purchase of equipment	(38,588)	(10,488)
Interest paid on Loans	(56,538)	(57,070)
Net Cash Provided (Used) by Capital & Related Financing Activities	(117,626)	(88,558)
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	552,537	523,346
Other non-operating income	56,731	24,015
Cash paid out from other non-operating expenses	(508,193)	(482,707)
Net Cash Provided (Used) by Noncapital Financing Activities	101,075	64,654
Cash Flows from Investing Activities		
Receipt of Interest	2,268	1,882
Redemption of a Certificates of Deposit	-	38,654
Net Cash Provided (Used) by Investing Activities	2,268	40,536
Net Change in Cash and Cash Equivalents	4,027	152,511
Cash and Cash Equivalents, Beginning of Year	497,999	345,488
Cash and Cash Equivalents, End of Year	$ 502,026	$ 497,999
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	$ 75	$ 75
Cash Operations Account	429,470	430,434
Deposit Account	32,881	37,790
Debt Reserve Account	39,600	29,700
	$ 502,026	$ 497,999

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	2017	2016
Operating Income	$ (226,306)	$ (174,929)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	228,085	228,567
Bad Debts	2,206	2,979
Pension Expense	44,219	-
Change in assets and liabilities		
Certificates of deposit	(1,380)	37,137
Accounts receivable	(1,506)	10,058
Inventory	(4,607)	(1,365)
Accrued interest receivable	(377)	30
Prepaid expenses	(565)	(2,007)
Accounts payable	(16,754)	35,128
Accrued payroll taxes payable	376	785
Customer deposits	(5,160)	2,650
Customer deposits - accrued interest	(2,379)	(119)
Accrued sales tax	(55)	1
Accrued school tax	110	(46)
Accrued pension expense	536	536
Unearned income	718	(4,690)
Accrued loan interest payable	(351)	(336)
USDA Loan Payable	1,500	1,500
Net Cash Provided by Operating Activities	$ 18,309	$ 135,879

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All of the District's activity is accounted for as business-type activities. Operating revenues relate to the District's primary function of the collection of water sales, likewise, operating expenses include the expenses for the distribution of water to customers. Non-operating revenues and expenses relate to all other revenue and expenses.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, 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 revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net asset use through external 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 – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District does not provide an allowance for uncollectible accounts but rather expenses such items in the period they become uncollectible. This practice differs from generally accepted account principles but its impact is deemed immaterial. The amount written-off for the years ended December 31, 2017 and 2016 totaled $2,206 and $2,979, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District may turn off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000. The District paid $22,500 and $21,500 in principle during calendar years ended December 31, 2017 & 2016, respectively and the loan balance was $1,793,000 and $1,815,000 at December 31, 2017 & 2016, respectively.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Commission's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2017 and 2016. See Note 4 for full disclosure of activity.

L. CASH AND CASH EQUIVALENTS

For business type activities all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. PREPAID EXPENSES

Prepaid expenses include expenditures for the insurance and software maintenance made in connection with future program and activities.

O. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. Currently, the District has only one item that qualifies for reporting in this category, contributions subsequent to measurement date relating to the retirement information.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Currently, the District has only one item that qualifies for reporting in this category, net difference between projected actual earnings on pension plan investment relating to the retirement information.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of $250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was $502,026 and $497,999 for the years ended December 31, 2017 and 2016, respectively. The carrying amount of the District's certificates of deposit was $923,732 and

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT (continued)

$922,352 for the years ended December 31, 2017 and 2016, respectively. The bank balances and certificates of deposit are covered by $250,000 of FDIC insurance. At various times throughout the year and at year-end, this $250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Bank Balances and Certificates of Deposit at December 31, 2017, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Uninsured Uncollater-alized	Book Value
Unrestricted Bank Balances	$ 250,000	$ -	$ -	$ 250,000	$ 212,351	$ 462,351
Restrict Bank Balance	-	-	-	-	39,600	39,600
Certificates of Deposit	726,694	-	-	726,694	197,038	923,732
Total	$ 976,694	$ -	$ -	$ 976,694	$ 448,989	$1,425,683

Bank Balances and Certificates of Deposit at December 31, 2016, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Uninsured Uncollater-alized	Book Value
Unrestricted Bank Balances	$ 250,000	$ -	$ -	$ 250,000	$ 218,299	$ 468,299
Restrict Bank Balance	-	-	-	-	29,700	29,700
Certificates of Deposit	725,826	-	-	725,826	196,526	922,352
Total	$ 975,826	$ -	$ -	$ 975,826	$ 444,525	$1,420,351

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District's threshold for capitalization is $2,500. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

The following represents the activity for the year ended December 31, 2017:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 37,713	$ 6,010,029	$6,253,782
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	- 0-	-0-	-0-	38,588	38,588
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,048,617	$ 6,292,370

The following represents the activity for the year ended December 31, 2016:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 51,568	$ 5,999,541	$6,257,149
Deletions	-0-	-0-	(13,855)	-0-	(13,855)
Additions	- 0-	-0-	-0-	10,488	10,488
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,010,029	$ 6,253,782

A summary of property and equipment and depreciation for the years ended December 31, 2017 and 2016 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2017	Property & Equipment	$6,292,370	$ 228,085	$ 2,608,050
FY 2016	Property & Equipment	$6,253,782	$ 228,567	$ 2,379,966

Land valued at $4,806 is not being depreciated.

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA was granted for the fiscal years ending June 30, 2017 or 2016.

Employees covered by benefit terms: At the measurement date of June 30, 2017 and 2016:

Estimated Inactive employees or beneficiaries currently receiving benefits	1
Estimated Inactive employees or beneficiaries not currently receiving benefits	1
Active employees	4
Total	6

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were $72,322 and $31,793 for the year ended December 31, 2017 and 2016, respectively. The District contributed 19.18% of employees' gross compensation to the plan from July – December and 18.68% from January - June for the year ended December 31, 2017 and 18.68% for July – December and 17.67% from January - June during the year ended December 31, 2016. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

Actuarial Assumptions:

The total pension liability as of June 30, 2017 and 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30% percent for June 30, 2017 and 3.25 percent for June 30, 2016.
Salary increases	Representative values of the assumed annual rates of future salary increases from 3.05% for June 30, 2017 and 4.0% average for June 30, 2016 including inflation.
Investment rate of return	6.25% per annum @ June 30, 2017 and 7.50% per annum @ June 30, 2016 net of pension plan investment expense, including inflation.

NOTE 4- EMPLOYEE RETIREMENT (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 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 actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2015. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The actuarial assumptions used in the June 30, 2017 actuarial valuation was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods and data, as of that date. The roll-forward is based on the results of GRS' replication.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. 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 (see chart below). 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 assumptions are intended to be long-term assumptions

NOTE 4- EMPLOYEE RETIREMENT (continued)

and are 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 long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 6.25% for June 30, 2017 and 7.50% for June 30, 2016 based on a blending of the factors described below:

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
Combined Equity	5.40%	44%
Combined Fixed Income	1.50%	19%
Real Return (Diversified Inflation Strategies	3.50%	10%
Real Estate	4.50%	5%
Absolute Return (Diversified Hedge Funds	4.25%	10%
Private Equity	8.50%	10%
Cash	(.25)%	2%
		100.00%

Discount Rate:

The discount rate used to measure the total pension liability was 6.25% for June 30, 2017 and 7.50% for June 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent for June 30, 2017, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District net pension liability - 2017	$ 402,704	$ 391,298	$ 249,530

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.50 percent for June 30, 2016, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District net pension liability - 2016	$ 296,899	$ 261,970	$ 227,041

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

At December 31, 2017, the District reported a liability of $319,298 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating CERS members, actuarially determined. At June 30, 2017, the District recognized pension expense of $72,322. At December 31, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Amounts per audited KRS financial report	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 396	$ (8,105)
Changes in Assumptions	58,919	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	25,288	(21,340)
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	4,246	(13,098)
Measurement Date of June 30	$ 88,849	$ 42,543

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments and Contribution Subsequent to the Measurement Date of June will be recognized in pension expense as follows:

Year Ended June 30:

2018	$ 16,098
2019	22,750
2020	11,560
2021	(4,102)
Total	$ 46,306

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2017, the District contributed 18.68% from January – June and 19.18% thereafter. In 2016, the District contributed 18.68% from January - June and 17.67% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan $3,258 and $2,652 at December 31, 2017 and 2016, respectively.

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended June 30, 2017, determined as of June 30, 2015. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	28 Years for June 30, 2017 and 2016
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized for the year ended June 30, 2017 and a 5-Year Smoothed Market for the year ended June 30, 2016
Inflation	3.25 Percent for June 30, 2017 & June 30, 2016
Salary Increase	4.0 Percent Average for June 30, 2017 and June 30, 2016,
Payroll Growth Rate	4.0%
Investment Rate of Return	7.50 Percent for June 30, 2017 and for June 30, 2016, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	June 30, 2015

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 – OTHER EMPLOYEE BENEFITS

In addition to the pension benefits described in Note 4, the District participates in the Kentucky Retirement Systems Insurance fund (Fund). The Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701 to provide hospital and medical insurance for member receiving benefits from the Kentucky Employees Retirement System (KRS). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase medical insurance.

NOTE 5 – OTHER EMPLOYEE BENEFITS (continued)

The amount of contribution paid by the Fund is based on years of service. For members participating prior to July 1, 2003, the years of service and respective percentages of the maximum contribution were as follows:

Years of Service	Paid by Insurance Fund
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

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 ten years, non-hazardous employees who participating began on or after July 1, 2003 earn ten dollars ($10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

NOTE 6 - CUSTOMER DEPOSITS (continued)

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%.

The estimated accrued interest on these deposits at December 31, 2017 & 2016 was $1,052 and $3,431, respectively.

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2017 and 2016 by $9,462 and $11,320, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855-10-50-1 "Subsequent Events". The Organization evaluated events occurring between the end of its most recent year end and this report date. Management believes no significant events occurred subsequent to the date of this report which is the date the financial statements were available to be issued.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principle payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit $750 per month for the original loan and $75 per month for the subsequent loan until such time the account reaches $98,500. Management has opened this account and had a balance of $39,600 at December 31, 2017 and $29,700 at December 31, 2016.

The District paid $22,500 of principle on January 1, 2017 and $21,500 of principle on the loan on January 1, 2016. In addition another $24,000 in principle is due on January 1, 2018. Total interest expense on this loan was $56,031 and $56,734 for December 31, 2017 and 2016, respectively.

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The District's long-term debt at December 31, 2017 is detailed as follows:

	Principal Balance 12/31/16	Borrowings	Payments	Principal Balance 12/31/17	Current Portion	Long-Term Portion
USDA Loan	$1,815,500	-0-	$ 22,500	$ 1,793,000	$ 24,000	$ 1,769,000

The District's long-term debt at December 31, 2016 is detailed as follows:

	Principal Balance 12/31/15	Borrowings	Payments	Principal Balance 12/31/16	Current Portion	Long-Term Portion
USDA Loan	$1,837,000	-0-	$ 21,500	$ 1,815,500	$ 22,500	$ 1,793,000

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2018	24,000	55,281	79,281
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021	26,500	52,891	79,391
2022	27,500	52,031	79,531
2023 - 2026	123,000	198,703	321,703
2027 – 2031	185,000	224,063	409,063
2032 - 2036	226,500	191,375	417,875
2037 – 2041	278,500	151,203	429,703
2042 – 2046	340,500	102,062	442,562
2047 – 2051	418,000	41,750	459,750
2052	93,500	- 0 -	93,500
Total	$ 1,793,000	$ 1,177,594	$2,970,594

NOTE 10 – RISK MANAGEMENT

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

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 29, 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 opinions 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 over financial reporting.

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 over financial reporting 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 **Preparation of Financial Statements**

Condition – As noted in the prior audits, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audits, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

2017-1 **FDIC Coverage of Deposits and Certificates of Deposit**

Condition – The District does not have internal control procedures designed to ensure that all deposit accounts and certificates of deposits are covered by FDIC insurance. At many times throughout the year the balances exceeded the $250,000 FDIC insurance coverage putting these funds at risk of loss if the bank were to fail.

Criteria – A good system of internal control establishes internal controls which effectively and timely ensure all assets are adequately insured.

Effect – Inadequate controls could result in significant financial loss if the banks were to fail.

Cause – District personnel have not adequately monitored bank balances to ensure all accounts have adequate insurance.

Recommendation – We recommend management review total funds at all banking institutions and move funds as needed to ensure adequate FDIC coverage.

Management Response – Management agrees and will implement the policy immediately.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated May 29, 2018.

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.

Harrod & Associates, PSC
Frankfort, KY 40601

May 29, 2018

REQUIRED SUPPLEMENTAL INFORMATION

FARMDALE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

	2017	2016	2015
Total Net Pension Liability for County Employees Retirement System (in thousands)	$ 5,853,443	$ 4,299,525	$ 3,244,377
Employer's Proportion (Percentage) of Net Pension Liability	0.00546%	0.00532%	0.00600%
Employer's Proportion (Amount) of Net Pension Liability	$ 319,298	$ 261,970	$ 257,923
Employer's Covered-Employer Payroll	$ 148,407	$ 120,993	$ 138,847
Employer's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of Employer's Covered-Employer Payroll	215.60%	216.52%	185.76%
Total Pension Plan's Fiduciary Net Position (in thousands)	$ 6,687,237	$ 644,080	$ 6,528,146
Total Pension Plan's Pension Liability (in thousands)	$ 12,540,545	$ 10,740,325	$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	53.32%	59.97%	66.80%

FARMDALE WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

	2017	2016	2015
Actuarially Determined Contribution	$ 18,528	$ 15,116	$ 54,050
Contributions in Relation to the Actuarially Determined Contribution	28,103	26,755	31,828
Contribution Deficiency (Excess)	(9,575)	(11,639)	22,222
Covered-Employee Payroll	$ 148,407	$ 120,993	$ 138,847
Contributions as a Percentage of Covered-Employee Payroll	18.94%	22.11%	22.92%

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

<u>AUDITED FINANCIAL STATEMENTS</u>

FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

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MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Farmdale Water 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Farmdale Water District as of December 31, 2018 and 2017, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, the Schedule of the District's Proportionate Share of the CERS Net Pension Liability on page 44, the Schedule of Contributions to CERS on page 45, the Schedule of Net OPEB Liability on page 46 and the Schedule of Contributions to CERS Insurance Fund on Page 47 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2019 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 solely 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 the effectiveness of the District's 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.

Harrod & Associates, PSC
Frankfort, KY 40601

June 10, 2019
cys: 4

FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2018 & 2017

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013. In addition, beginning in August of 2017 the District installed two master meters in order to detect water leaks and manage the water loss the District has been experiencing. In April 2018, the District discovered and repaired a significant water leak which was causing a loss of approximately 150,000 gallons per day.

Financial Highlights

In 2018, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,673,337. Of this amount, $1,981,468 was invested in Capital Assets, $82,493 was restricted for debt retirement, and $609,376 was unrestricted. In 2018, the Board's net assets decreased ($256,198), primarily through Other Post Employment Benefits (OPEB) and pension adjustments, payroll, employee benefits, depreciation and the cost of purchased water.

In 2017, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,929,535. Of this amount, $1,891,320 was invested in Capital Assets, $72,481 was restricted for debt retirement, and $965,734 was unrestricted. In 2017, the Board's net assets decreased ($178,497), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

Revenues

Gross income from the sale of water, including tap on fees and reconnect fees totaled $1,232,487 and $1,231,246 for the calendar years 2018 and 2017, respectively. The Kentucky Public Service Commission (PSC) approved one rate increase each in 2018 and 2017. Both of these requests for increases were in response to increases in the cost of water purchased from the Frankfort Plant Board. The rate increase in 2018 was effective in July, while in 2017, the increase was effective in November.

Expenses
Operating expenses were $1,541,445 and $1,457,552 for the calendar years 2018 and 2017, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased", "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses" and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,655 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of two components:

>Financial Statements
>Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

Financial Overview (continued)

2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2018 and 2017 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 40 of this report.

Statement of Net Position Overview

The District was not required to have an audit under Uniform Guidance for 2018 or 2017.

Statement of Net Position	2018	2017	Change	% Change
Capital Assets	3,750,468	3,684,320	66,148	1.79%
Current and Other Assets	1,334,812	1,555,878	(221,066)	(14.21%)
Other Assets	122,479	88,849	33,630	37.85%
Total Assets	5,207,759	5,329,047	(121,288)	(2.28%)
Long-term Liabilities	1,744,500	1,769,000	(24,500)	(1.38%)
Other Liabilities	789,922	630,512	159,410	25.28%
Total Liabilities	2,534,422	2,399,512	134,910	5.62%
Net Position:				
Invested in Capital Assets	1,981,468	1,891,320	90,148	4.77%
Restricted	82,493	72,481	10,012	13.81%
Unrestricted	609,376	965,734	(356,358)	(36.90%)
Total Net Position	2,673,337	2,929,535	(256,198)	(8.74%)

Financial Overview (continued)

Statement of Net Position Overview (continued)

The District was not required to have an audit under Uniform Guidance for 2017 or 2016.

Statement of Net Position	2017	2016	Change	% Change
Capital Assets	3,684,320	3,873,816	(189,496)	(4.89%)
Current and Other Assets	1,555,878	1,543,416	12,462	0.81%
Other Assets	88,849	61,301	27,548	44.94%
Total Assets	5,329,047	5,478,533	(149,486)	(2.73%)
Long-term Liabilities	1,769,000	1,793,000	(24,000)	(1.34%)
Other Liabilities	630,512	577,501	53,011	9.18%
Total Liabilities	2,399,512	2,370,501	29,011	1.22%
Net Position:				
Invested in Capital Assets	1,891,320	2,015,815	(124,495)	(6.18%)
Restricted	72,481	29,700	42,781	144.04%
Unrestricted	965,734	1,062,517	(96,783)	(9.11%)
Total Net Position	2,929,535	3,108,032	(178,497)	(5.74%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev. Exp. and Changes in Net Position	2018	2017	Change	% Change
Operating Revenues	1,232,487	1,231,246	1,241	0.01%
Operating Expenses	1,541,445	1,457,552	83,893	5.76%
Operating Income/(Loss)	(308,958)	(226,306)	(82,652)	(36.52%)
Net Non-Operating Income	52,760	47,809	4,951	10.36%
Change in Net Position	(256,198)	(178,497)	(77,701)	(43.53%)

Financial Overview (continued)

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

Statement of Rev. Exp. and Changes in Net Position	2017	2016	Change	% Change
Operating Revenues	1,231,246	1,203,810	27,436	2.28%
Operating Expenses	1,457,552	1,378,739	78,813	5.72%
Operating Income/(Loss)	(226,306)	(174,929)	(51,377)	(29.37%)
Net Non-Operating Income	47,809	42,958	4,851	11.29%
Change in Net Position	(178,497)	(131,971)	(46,526)	(35.25%)

Assets
In 2018, the District's total assets decreased $121,288 from FY 2017. The Audit Report indicates the major increases were in "Fixed Assets" due to the improvement of several lines and meters. The largest decreases were in "Accounts Receivable" due to improved collections and "Cash" used to meet normal operating expenses.

In 2017, the District's total assets decreased $149,486 from FY 2016. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Cash" used to meet normal operating expenses.

Liabilities
In 2018, the District's total liabilities increased $134,910 from FY 2017. The Audit Report indicates the major changes were in "Net Pension Liability" and "Net OPEB Liability". Net Pension Liability and Net OPEB Liability increased $57,328 which explains the increase.

In 2017, the District's total liabilities increased $29,011 from FY 2016. The Audit Report indicates the major changes were in "Net Pension Liability" and "Deferred Inflows". Net Pension Liability increased $162,639 which explains the increase.

Net Assets
The District's assets exceeded its liabilities by $2,673,337 and $2,929,535 for fiscal years ended December 31, 2018 and 2017, respectively. This represents a decrease from fiscal year 2017 to 2018 of ($256,198) and 2016 to 2017 of ($178,497). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

Financial Overview (continued)

Net Assets (continued)
cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets
The District's investments in capital assets as of December 31, 2018, 2017 and 2016 amounted to $3,750,468, $3,684,320, and $3,873,816 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included installation of new lines and meters.

Debt Administration

Long-Term Debt
The District has entered into an agreement with the U. S. Department of Agriculture to borrow $1,668,000 and a subsequent $190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The District repaid principal of $24,000 principal payment in January 2018 and $22,500 in January 2017. The loan is a 40 year loan at 3.125% interest payable semi-annually. In addition, prepayment of the loan is not allowed.

Budget

Budget
KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water
The District, in April 2018, found and repaired a leak which was losing approximately 150,000 gallons per day. The District continues to vigorously search for and repair leaks throughout their system.

Administrative and General
The District continues to experience an increase in health care and retirement expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future. In addition, accounting pronouncements concerning the CERS pension and OPEB cost continue to rise and affect the bottom line for the District.

The District currently had four full-time employees in 2018 and 2017. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary. In response to these needs the District plans to hire additional field staff in 2019.

The District has experienced changes in the employer contribution rate to CERS for employee pension. The District contributed 21.48% of employees' gross compensation to the plan from July – December and 19.18% from January - June for the year ended December 31, 2018 and 19.18% for July – December and 18.68% from January - June during the year ended December 31, 2017. These rates are expected to continue to increase with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Kentucky Retirement System Board of Trustees had originally set the contribution rate effective July 1, 2018 at 28.05%, however, with the passage of House Bill 362, the rate increases were limited to 12% per fiscal year. The rate for July 1, 2018 through June 30, 2019 is 21.48%.

Overall
The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water loss was still at a very high rate averaging approximately 28.0% of purchased water throughout the year. However, in April 2018 the District discovered a leak underneath U.S. 127 South which was losing approximately 150,000 gallons per day, this discovery and repair should significantly reduce their water loss. Management continues to employ new methods in attempting to find and repair leaks and the percentage loss has dropped from the prior years. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018 & 2017

ASSETS

CURRENT ASSETS	2018	2017
Cash and Cash Equivalents	$ 215,422	$ 429,545
Cash - Restricted Customer Deposits	32,993	32,881
Certificates of Deposit	926,688	923,732
Accounts Receivable	69,688	96,036
Inventory	23,326	18,621
Accrued Interest Receivable	2,864	988
Prepaid Expenses	14,331	14,475
TOTAL CURRENT ASSETS	1,285,312	1,516,278
CAPITAL ASSETS		
Land & Buildings	55,431	55,431
Equipment	150,609	150,609
Vehicles	37,713	37,713
Water Lines, Hydrants, Towers, & Meters	6,342,403	6,048,617
Accumulated Depreciation	(2,835,688)	(2,608,050)
TOTAL CAPITAL ASSETS	3,750,468	3,684,320
NONCURRENT ASSETS		
Cash - Debt Reserve	49,500	39,600
TOTAL NONCURRENT ASSETS	49,500	39,600
DEFERRED OUTFLOWS (from pension & OPEB activity)		
Deferred Outflows - OPEB	30,768	-
Deferred Outflows - Pension	91,711	88,849
TOTAL DEFERRED OUTFLOWS	122,479	88,849
TOTAL ASSETS	$ 5,207,759	$ 5,329,047

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018 & 2017

LIABILITIES

CURRENT LIABILITIES	2018	2017
Accounts Payable	$ 145,652	$ 160,984
Customer Deposits	37,421	34,805
Customer Deposits - Accrued Interest	954	1,052
Accrued Sales Tax	750	545
Accrued School Tax	2,643	2,472
Accrued Payroll Tax	4,543	6,001
Accrued Pension Expense	1,996	3,258
Accrued Loan Interest Payable	27,641	28,016
Current Portion of Noncurrent Liabilities	24,500	24,000
Unearned Income	10,878	7,538
TOTAL CURRENT LIABILITIES	256,978	268,671
NONCURRENT LIABILITIES		
U.S. Department of Agriculture	1,769,000	1,793,000
Current Portion of Noncurrent Liabilities	(24,500)	(24,000)
Net OPEB Liability	108,784	-
Net Pension Liability	373,153	319,298
TOTAL NONCURRENT LIABILITIES	2,226,437	2,088,298
DEFERRED INFLOWS (from pension & OPEB activity)		
Deferred Inflows - OPEB	20,627	-
Deferred Inflows - Pension	30,380	42,543
TOTAL DEFERRED INFLOWS	51,007	42,543
TOTAL LIABILITIES	2,534,422	2,399,512
NET POSITION		
Invested in Capital Assets, net of related debt	1,981,468	1,891,320
Net Assets Restricted	82,493	72,481
Net Assets Unrestriction	609,376	965,734
TOTAL NET POSITION	2,673,337	2,929,535
TOTAL LIABILITIES AND NET POSITION	$ 5,207,759	$ 5,329,047

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

OPERATING REVENUES	2018	2017
User Fees:		
Water - Residential	$ 942,664	$ 943,931
Water - Commercial	162,336	147,321
Sewer Surcharge Fees	69,184	83,500
Tap-on Fees	12,452	9,462
Late Payment Penalty Income	38,550	37,860
Reconnect Fees	7,301	9,172
Gain on Sale of Fixed Assets	-	-
TOTAL OPERATING REVENUES	1,232,487	1,231,246
OPERATING EXPENSES		
Water Purchased	601,186	655,527
Pumping Electricity	20,353	22,469
Payroll	180,122	163,007
Payroll Taxes	14,355	13,644
Employee Benefits	142,987	32,636
Retirement Benefits	65,731	72,322
Transmission and Distribution Expense	22,536	42,364
Administrative and General Expense	67,847	62,954
Interest Paid on Loans	55,281	56,031
Other Interest Expense	435	195
Water Testing	5,933	5,026
Maintenance & Repairs	74,232	43,441
Insurance & Workers' Comp	20,927	21,124
Taxes & Licenses	38,381	36,521
Bad Debts	3,501	2,206
Depreciation	227,638	228,085
TOTAL OPERATING EXPENSES	1,541,445	1,457,552
Operating Loss	(308,958)	(226,306)

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

NON OPERATING REVENUES (EXPENSES)	2018	2017
Sewer Fees Collected	586,271	552,537
Sewer Fees Paid	(540,257)	(508,193)
Interest Income	5,371	2,269
Other Income	1,375	1,196
TOTAL NON OPERATING REVENUES (EXPENSES)	52,760	47,809
Change in Net Position	(256,198)	(178,497)
Net Position - Beginning of Year	2,929,535	3,108,032
Net Position - End of Year	$ 2,673,337	$ 2,929,535

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

	2018	2017
Cash Flow from Operating Activities		
Cash received from users and customers	$ 1,228,602	$ 1,220,442
Cash payments to employees for services & benefits	(264,086)	(237,391)
Cash payments to suppliers of goods and services	(846,841)	(964,741)
Net Cash Provided (Used) by Operating Activities	117,675	18,310
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(24,000)	(22,500)
Purchase of equipment	(293,787)	(38,588)
Interest paid on Loans	(56,023)	(56,538)
Net Cash Provided (Used) by Capital & Related Financing Activities	(373,810)	(117,626)
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	587,646	552,537
Other non-operating expenses	(737)	56,731
Cash paid out from other non-operating expenses	(540,257)	(508,193)
Net Cash Provided (Used) by Noncapital Financing Activities	46,652	101,075
Cash Flows from Investing Activities		
Receipt of Interest	5,371	2,268
Redemption of a Certificates of Deposit	(122,341)	-
Purchases of Certificates of Deposit	122,341	-
Net Cash Provided (Used) by Investing Activities	5,371	2,268
Net Change in Cash and Cash Equivalents	(204,112)	4,027
Cash and Cash Equivalents, Beginning of Year	502,026	497,999
Cash and Cash Equivalents, End of Year	$ 297,914	$ 502,026
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	$ 75	$ 75
Cash Operations Account	215,346	429,470
Deposit Account	32,993	32,881
Debt Reserve Account	49,500	39,600
	$ 297,914	$ 502,026

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

Reconciliation of Operating Income to Net Cash Provided by Operating Activities		2018		2017
Operating Loss	$	(256,198)	$	(178,497)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities				
Depreciation		227,638		228,085
Bad Debts		3,501		-
Pension/OPEB Changes		137,473		44,219
Change in assets and liabilities				
Certificates of deposit		(2,956)		(1,380)
Accounts receivable		26,348		(1,506)
Inventory		(4,706)		(4,607)
Accrued interest receivable		(1,876)		(377)
Prepaid expenses		144		(565)
Accounts payable		(15,332)		(16,754)
Accrued payroll taxes payable		(1,459)		376
Customer deposits		2,616		(5,160)
Customer deposits - accrued interest		(98)		(2,379)
Accrued sales tax		205		(55)
Accrued school tax		172		110
Accrued pension expense		(1,262)		536
Unearned income		3,340		718
Accrued loan interest payable		(375)		(351)
USDA Loan Payable		500		1,500
Net Cash Provided by Operating Activities	$	117,675	$	63,913

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 & 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statute 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statute mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All of the District's activity is accounted for as business-type activities. Operating revenues relate to the District's primary function of the collection of water sales, likewise, operating expenses include the expenses for the distribution of water to customers. Non-operating revenues and expenses relate to all other revenue and expenses.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, 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 revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net asset use through external 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 – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District does not provide an allowance for uncollectible accounts but rather expenses such items in the period they become uncollectible. This practice differs from generally accepted account principles but its impact is deemed immaterial. The amount written-off for the years ended December 31, 2018 and 2017 totaled $3,501 and $2,206, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District may turn off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000. The District paid $24,000 and $22,500 in principal during calendar years ended December 31, 2018 & 2017, respectively and the loan balance was $1,769,000 and $1,793,000 at December 31, 2018 & 2017, respectively.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the District's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2018 and 2017. See Note 4 for full disclosure of activity.

L. CASH AND CASH EQUIVALENTS

For business type activities all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. PREPAID EXPENSES

Prepaid expenses include expenditures for the insurance and software maintenance made in connection with future program and activities.

N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. Currently, the District has only one item that qualifies for reporting in this category: contributions subsequent to measurement date relating to the retirement information.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Currently, the District has only one item that qualifies for reporting in this category: net difference between projected actual earnings on pension plan investment relating to the retirement information.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of $250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was $297,915 and $502,026 for the years ended December 31, 2018 and 2017, respectively. The carrying amount of the District's certificates of deposit was $926,688 and

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT (continued)

$923,732 for the years ended December 31, 2018 and 2017, respectively. The bank balances and certificates of deposit are covered by $250,000 of FDIC insurance. At various times throughout the year and at year-end, this $250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Bank Balances and Certificates of Deposit at December 31, 2018, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Uninsured Uncollater-alized	Book Value
Unrestricted Bank Balances	$ 215,421	$ -	$ -	$ 215,421	$ -	$ 215,421
Restrict Bank Balance	34,579	-	-	34,579	47,914	82,493
Certificates of Deposit	926,688	-	-	926,688	-	926,688
Total	$1,176,688	$ -	$ -	$ 1,176,688	$ 47,914	$1,224,602

Bank Balances and Certificates of Deposit at December 31, 2017, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Uninsured Uncollater-alized	Book Value
Unrestricted Bank Balances	$ 250,000	$ -	$ -	$ 250,000	$ 179,470	$ 429,470
Restrict Bank Balance	-	-	-	-	72,481	72,481
Certificates of Deposit	726,694	-	-	726,694	197,038	923,732
Total	$ 976,694	$ -	$ -	$ 976,694	$ 448,989	$1,425,683

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District's threshold for capitalization is $2,500. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

The following represents the activity for the year ended December 31, 2018:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 37,713	$ 6,048,617	$6,292,370
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	- 0-	-0-	-0-	293,787	293,787
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,342,404	$ 6,586,157

The following represents the activity for the year ended December 31, 2017:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 37,713	$ 6,010,029	$6,253,782
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	- 0-	-0-	-0-	38,588	38,588
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,048,617	$ 6,292,370

A summary of property and equipment and depreciation for the years ended December 31, 2018 and 2017 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2018	Property & Equipment	$6,586,157	$ 227,638	$ 2,835,688
FY 2017	Property & Equipment	$6,292,370	$ 228,085	$ 2,608,050

Land valued at $4,806 is not being depreciated.

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Tier 1 Non-Hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 Non-Hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age plus earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 Non-Hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. Senate Bill 2 of 2013 eliminated all future COLA's unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA was granted for the fiscal years ending June 30, 2018 or 2017.

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Employees covered by benefit terms: At the measurement date of June 30, 2018 and 2017:

	2018	2017
Estimated Inactive employees/beneficiaries currently receiving benefits	1	1
Estimated Inactive employees/beneficiaries not currently receiving benefits	1	1
Active employees	4	4
Total	6	6

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were $65,731 and $72,322 for the year ended December 31, 2018 and 2017, respectively. The District contributed 21.48% of employees' gross compensation to the plan from July – December and 19.18% from January - June for the year ended December 31, 2018. The District contributed 19.18% of employees' gross compensation to the plan from July – December and 18.68% from January - June for the year ended December 31, 2017. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

Actuarial Assumptions:

The total pension liability as of June 30, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.30% for June 30, 2018 and for June 30, 2017

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Salary increases	Representative values of the assumed annual rates of future salary increases from 3.05% for June 30, 2018 and 2017 including inflation
Investment rate of return	6.25% per annum @ June 30, 2018 and 2017 net of pension plan investment expense, including inflation

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 actuarial assumptions used in the June 30, 2018 and 2017 actuarial valuation was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 and 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods and data, as of that date. The roll-forward is based on the results of GRS' replication.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. 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 (see chart below). 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 assumptions are intended to be long-term assumptions

NOTE 4 - EMPLOYEE RETIREMENT (continued)

and are 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 long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 6.25% for June 30, 2018 and 6.25% for June 30, 2017 based on a blending of the factors described below:

June 30, 2018

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
U.S. Equity:	14.50%	17.50%
International Equity	13.75%	17.50%
Global Bonds	3.00%	10.00%
Credit Fixed	15.25%	17.00%
Private Equity	6.50%	10.00%
Real Estate	7.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	5.00%	10.00%
Cash	1.50%	3.00%
		100.00%

June 30, 2017

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
Combined Equity	5.40%	44%
Combined Fixed Income	1.50%	19%
Real Return (Diversified Inflation Strategies)	3.50%	10%
Real Estate	4.50%	5%
Absolute Return (Diversified Hedge Funds)	4.25%	10%
Private Equity	8.50%	10%
Cash	(.25)%	2%
		100.00%

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Discount Rate:

The discount rate used to measure the total pension liability was 6.25% for June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent for June 30, 2018, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District net pension liability - 2018	$ 469,761	$ 373,153	$ 292,212

The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent for June 30, 2017, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District net pension liability - 2017	$ 402,704	$ 319,298	$ 249,530

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

At December 31, 2018, the District reported a liability of $373,153 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating CERS members, actuarially determined. At June 30, 2018, the District recognized pension expense of $65,731. At December 31, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Amounts per audited KRS financial report	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 12,171	$ 5,462
Changes in Assumptions	36,468	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	17,352	21,826
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	25,720	3,092
Measurement Date of June 30	$ 91,711	$30,380

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments and Contribution Subsequent to the Measurement Date of June will be recognized in pension expense as follows:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Year Ended June 30:

2019	$	38,088
2020		25,245
2021		1
2022		(2,003)
Total	$	61,331

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2018, the District contributed 19.18% from January – June and 21.48% thereafter. In 2017, the District contributed 18.68% from January – June and 19.18% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan $1,996 and $3,258 at December 31, 2018 and 2017, respectively.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended June 30, 2018, determined as of June 30, 2016. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	27 Years for June 30, 2018, closed and 28 Years for June 30, 2017
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized for the year ended June 30, 2018 and 2017
Inflation	3.25 Percent for June 30, 2018 & June 30, 2017
Salary Increase	4.0 Percent Average for June 30, 2018 and June 30, 2017
Payroll Growth Rate	4.0%
Investment Rate of Return	7.50 Percent for June 30, 2018 and for June 30, 2017, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	June 30, 2016

NOTE 4 - EMPLOYEE RETIREMENT (continued)

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS

In addition to the pension benefits described in Note 4, the District participates in the Kentucky Retirement Systems Insurance fund (Fund). The Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701 to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System (KRS). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase medical insurance.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), 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 a 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. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

NOTE 5 – – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District's contractually required contribution rate for the period of January 2018 through June 2018 was 4.70% of covered payroll and the contribution rate for the period July 2018 through December 2018 was 5.26%. Contributions to the Insurance Fund from the District were $7,802 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

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

At December 31, 2018, the District reported a liability of $108,784 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for the plan fiscal year 2018 (July 1, 2017 through June 30, 2018). This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2018, the District's proportion was 0.006127%.

For the year ended December 31, 2018, the District recognized OPEB expense of $98,643, included as part of employment benefits of $142,987. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

Amounts per audited KRS financial report	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ -0-	$ 12,677
Changes in Assumptions	21,726	251
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-0-	7,493
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	9,042	206
Measurement Date of June 30	$ 30,768	$ 20,627

Of the total amount reported as deferred outflows of resources related to OPEB, $6,842 resulting from the District's contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ended June 30:

2019	$ 2,045
2020	2,045
2021	2,045
2022	3,500
2023	(33)
Thereafter	(204)
Total	$ 9,398

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates:

Inflation	2.30 Percent
Salary Increase	3.05 Percent
Investment Rate of Return	6.25 Percent
Healthcare cost trend rates Pre-65	Initial trend starting at 7.00% as of January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Healthcare cost trend rates Post-65	Initial trend starting at 5.00% as of January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

The long-term expected rate of return was determined by using a building-block method in which 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 below:

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
U.S. Equity:		
US Large Cap	4.50%	5.00%
US Mid Cap	4.50%	6.00%
US Small Cap	5.50%	6.50%
International Equity		
International Developed	6.50%	12.50%
Emerging Markets	7.25%	5.00%
Global Bonds	3.00%	4.00%
Credit Fixed	23.75%	24.00%
Private Equity	6.50%	10.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Cash	1.50%	2.00%
		100.00%

Discount rate. The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the collective net OPEB liability as well as what the RWGS's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.85%) or 1 percentage point higher (6.85%) than the current discount rate:

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
District's Net OPEB liability	$ 141,761	$ 108,784	$ 81,092

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following table presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
District's Net OPEB Liability	$ 81,092	$ 108,784	$ 141,544

The amount of contribution paid by the Fund is based on years of service. For members participating prior to July 1, 2003, the years of service and respective percentages of the maximum contribution were as follows:

Years of Service	Paid by Insurance Fund
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

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 ten years, non-hazardous employees who participating began on or after July 1, 2003 earn ten dollars ($10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%.

The estimated accrued interest on these deposits at December 31, 2018 & 2017 was $954 and $1,052, respectively.

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2018 and 2017 by $12,452 and $9,462, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855-10-50-1 "Subsequent Events". The Organization evaluated events occurring between the end of its most recent year end and this report date. Management believes no significant events occurred subsequent to the date of this report which is the date the financial statements were available to be issued.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principal payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit $750 per month for the original loan and $75 per month for the subsequent loan until such time the account reaches $98,500. Management has opened this account and had a balance of $49,500 at December 31, 2018 and $39,600 at December 31, 2017.

The District paid $24,000 of principal on January 1, 2018 and $22,500 of principal on the loan on January 1, 2017. In addition another $24,500 in principal is due on January 1, 2019. Total interest expense on this loan was $55,281 and $56,031 for December 31, 2018 and 2017, respectively.

The District's long-term debt at December 31, 2018 is detailed as follows:

	Principal Balance 12/31/17	Borrowings	Payments	Principal Balance 12/31/18	Current Portion	Long-Term Portion
USDA Loan	$1,793,000	-0-	$ 24,000	$ 1,769,000	$ 24,500	$ 1,744,500

The District's long-term debt at December 31, 2017 is detailed as follows:

	Principal Balance 12/31/16	Borrowings	Payments	Principal Balance 12/31/17	Current Portion	Long-Term Portion
USDA Loan	$1,815,500	-0-	$ 22,500	$ 1,793,000	$ 24,000	$ 1,769,000

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021	26,500	52,891	79,391
2022	27,500	52,031	79,531
2023	29,000	51,125	80,125
2024 - 2026	94,000	147,578	241,578
2027 – 2031	185,000	224,063	409,063
2032 - 2036	226,500	191,375	417,875
2037 – 2041	278,500	151,203	429,703
2042 – 2046	340,500	102,062	442,562
2047 – 2051	418,000	41,750	459,750
2052	93,500	- 0 -	93,500
Total	$ 1,769,000	$ 1,122,313	$2,891,313

NOTE 10 – RISK MANAGEMENT

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

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2018 and 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 June 10, 2019.

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 opinions 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 over financial reporting.

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 over financial reporting 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audits, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audits, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

2017-1 FDIC Coverage of Deposits and Certificates of Deposit

Condition – The District does not have internal control procedures designed to ensure that all deposit accounts and certificates of deposits are covered by FDIC insurance. At many times throughout the year the balances exceeded the $250,000 FDIC insurance coverage putting these funds at risk of loss if the bank were to fail.

Criteria – A good system of internal control establishes internal controls which effectively and timely ensure all assets are adequately insured.

Effect – Inadequate controls could result in significant financial loss if the banks were to fail.

Cause – District personnel have not adequately monitored bank balances to ensure all accounts have adequate insurance.

Recommendation – We recommend management review total funds at all banking institutions and move funds as needed to ensure adequate FDIC coverage.

Management Response – Management agrees and will implement the policy immediately.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated June 10, 2019.

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.

Harrod & Associates, PSC
Frankfort, KY 40601

June 10, 2019

REQUIRED SUPPLEMENTAL INFORMATION

FARMDALE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017
(in thousands)

	2018	2017	2016	2015
Total Net Pension Liability for County Employees Retirement System (in thousands)	$ 6,090,305	$ 5,853,443	$ 4,299,525	$ 3,244,377
Employer's Proportion (Percentage) of Net Pension Liability	0.00613%	0.00546%	0.00532%	0.00600%
Employer's Proportion (Amount) of Net Pension Liability	$ 373,153	$ 319,298	$ 261,970	$ 257,923
Employer's Covered-Employer Payroll	$ 125,739	$ 148,407	$ 120,993	$ 138,847
Employer's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of Employer's Covered-Employer Payroll	296.77%	215.60%	216.52%	185.76%
Total Pension Plan's Fiduciary Net Position (in thousands)	$ 7,018,963	$ 6,687,237	$ 6,440,800	$ 6,528,146
Total Pension Plan's Pension Liability (in thousands)	$ 13,109,268	$ 12,540,545	$ 10,740,325	$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	53.54%	53.32%	59.97%	66.80%

See Independent Auditor's Report

FARMDALE WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

	2018	2017	2016	2015
Actuarially Determined Contribution	$ 21,989	$ 18,528	$ 15,116	$ 54,050
Contributions in Relation to the Actuarially Determined Contribution	24,042	28,103	26,755	31,828
Contribution Deficiency (Excess)	(2,053)	(9,575)	(11,639)	22,222
Covered-Employee Payroll	$ 125,739	$ 148,407	$ 120,993	$ 138,847
Contributions as a Percentage of Covered-Employee Payroll	19.12%	18.94%	22.11%	22.92%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	27 Years for June 30, 2018, closed and 28 Years for June 30, 2017
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized for the year ended June 30, 2018 and 2017
Inflation	3.25 Percent for June 30, 2018 & June 30, 2017
Salary Increase	4.0 Percent Average for June 30, 2018 and June 30, 2017,
Payroll Growth Rate	4.00%
Investment Rate of Return	7.50 Percent for June 30, 2018 and for June 30, 2017, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	06/30/2016

See Independent Auditor's Report

FARMDALE WATER DISTRICT
SCHEDULE OF NET OPEB LIABILITY AND RELATED RATIONS BASED ON PARTICIPATION IN CERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(in thousands)

	2018
Total Net OPEB Liability for County Employees Retirement System (in thousands)	$ 1,775,480
Employer's Proportion (Percentage) of Net OPEB Liability	0.00613%
Employer's Proportion (Amount) of Net OPEB Liability	$ 108,784
Employer's Covered-Employer Payroll	$ 125,739
Employer's Proportionate Share (Amount) of the Net OPEB Liability as a Percentage of Employer's Covered-Employer Payroll	86.52%
Total OPEB Plan's Fiduciary Net Position (in thousands)	$ 2,414,126
Total OPEB Plan's OPEB Liability (in thousands)	$ 4,189,606
Total OPEB Plan's Fiduciary Net Position as a Percentage of Total OPEB Liability	57.62%

See Independent Auditor's Report

FARMDALE WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS INSURANCE FUND
FOR THE YEARS ENDED DECEMBER 31, 2018

		2018
Actuarially Determined Contribution	$	7,137
Contributions in Relation to the Actuarially Determined Contribution		7,802
Contribution Deficiency (Excess)		(665)
Covered-Employee Payroll	$	125,739
Contributions as a Percentage of Covered-Employee Payroll		6.20%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.
See independent auditor's report.

Notes to Schedules Related to the County Employees' Insurance Fund of KRS Information

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2018:

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date	06/30/2016
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll Growth Rate	4.00 percent
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Investment Rate of Return	7.50 percent
Retirement age	65 years or 27 years of service regardless of age
Healthcare Trend Rates Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Trend Rates Post – 65	Post - 65 Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

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MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Farmdale Water 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Farmdale Water District as of December 31, 2018 and 2017, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, the Schedule of the District's Proportionate Share of the CERS Net Pension Liability on page 44, the Schedule of Contributions to CERS on page 45, the Schedule of Net OPEB Liability on page 46 and the Schedule of Contributions to CERS Insurance Fund on Page 47 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2019 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 solely 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 the effectiveness of the District's 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.

Harrod & Associates, PSC
Frankfort, KY 40601

June 10, 2019
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FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2018 & 2017

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013. In addition, beginning in August of 2017 the District installed two master meters in order to detect water leaks and manage the water loss the District has been experiencing. In April 2018, the District discovered and repaired a significant water leak which was causing a loss of approximately 150,000 gallons per day.

Financial Highlights

In 2018, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,673,337. Of this amount, $1,981,468 was invested in Capital Assets, $82,493 was restricted for debt retirement, and $609,376 was unrestricted. In 2018, the Board's net assets decreased ($256,198), primarily through Other Post Employment Benefits (OPEB) and pension adjustments, payroll, employee benefits, depreciation and the cost of purchased water.

In 2017, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,929,535. Of this amount, $1,891,320 was invested in Capital Assets, $72,481 was restricted for debt retirement, and $965,734 was unrestricted. In 2017, the Board's net assets decreased ($178,497), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

Revenues

Gross income from the sale of water, including tap on fees and reconnect fees totaled $1,232,487 and $1,231,246 for the calendar years 2018 and 2017, respectively. The Kentucky Public Service Commission (PSC) approved one rate increase each in 2018 and 2017. Both of these requests for increases were in response to increases in the cost of water purchased from the Frankfort Plant Board. The rate increase in 2018 was effective in July, while in 2017, the increase was effective in November.

Expenses

Operating expenses were $1,541,445 and $1,457,552 for the calendar years 2018 and 2017, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased", "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses" and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,655 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of two components:

>Financial Statements
>Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2018 & 2017

Financial Overview (continued)

2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2018 and 2017 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 40 of this report.

Statement of Net Position Overview
The District was not required to have an audit under Uniform Guidance for 2018 or 2017.

Statement of Net Position	2018	2017	Change	% Change
Capital Assets	3,750,468	3,684,320	66,148	1.79%
Current and Other Assets	1,334,812	1,555,878	(221,066)	(14.21%)
Other Assets	122,479	88,849	33,630	37.85%
Total Assets	5,207,759	5,329,047	(121,288)	(2.28%)
Long-term Liabilities	1,744,500	1,769,000	(24,500)	(1.38%)
Other Liabilities	789,922	630,512	159,410	25.28%
Total Liabilities	2,534,422	2,399,512	134,910	5.62%
Net Position:				
Invested in Capital Assets	1,981,468	1,891,320	90,148	4.77%
Restricted	82,493	72,481	10,012	13.81%
Unrestricted	609,376	965,734	(356,358)	(36.90%)
Total Net Position	2,673,337	2,929,535	(256,198)	(8.74%)

Financial Overview (continued)

Statement of Net Position Overview (continued)

The District was not required to have an audit under Uniform Guidance for 2017 or 2016.

Statement of Net Position	2017	2016	Change	% Change
Capital Assets	3,684,320	3,873,816	(189,496)	(4.89%)
Current and Other Assets	1,555,878	1,543,416	12,462	0.81%
Other Assets	88,849	61,301	27,548	44.94%
Total Assets	5,329,047	5,478,533	(149,486)	(2.73%)
Long-term Liabilities	1,769,000	1,793,000	(24,000)	(1.34%)
Other Liabilities	630,512	577,501	53,011	9.18%
Total Liabilities	2,399,512	2,370,501	29,011	1.22%
Net Position:				
Invested in Capital Assets	1,891,320	2,015,815	(124,495)	(6.18%)
Restricted	72,481	29,700	42,781	144.04%
Unrestricted	965,734	1,062,517	(96,783)	(9.11%)
Total Net Position	2,929,535	3,108,032	(178,497)	(5.74%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev. Exp. and Changes in Net Position	2018	2017	Change	% Change
Operating Revenues	1,232,487	1,231,246	1,241	0.01%
Operating Expenses	1,541,445	1,457,552	83,893	5.76%
Operating Income/(Loss)	(308,958)	(226,306)	(82,652)	(36.52%)
Net Non-Operating Income	52,760	47,809	4,951	10.36%
Change in Net Position	(256,198)	(178,497)	(77,701)	(43.53%)

Financial Overview (continued)

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

Statement of Rev. Exp. and Changes in Net Position	2017	2016	Change	% Change
Operating Revenues	1,231,246	1,203,810	27,436	2.28%
Operating Expenses	1,457,552	1,378,739	78,813	5.72%
Operating Income/(Loss)	(226,306)	(174,929)	(51,377)	(29.37%)
Net Non-Operating Income	47,809	42,958	4,851	11.29%
Change in Net Position	(178,497)	(131,971)	(46,526)	(35.25%)

Assets
In 2018, the District's total assets decreased $121,288 from FY 2017. The Audit Report indicates the major increases were in "Fixed Assets" due to the improvement of several lines and meters. The largest decreases were in "Accounts Receivable" due to improved collections and "Cash" used to meet normal operating expenses.

In 2017, the District's total assets decreased $149,486 from FY 2016. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Cash" used to meet normal operating expenses.

Liabilities
In 2018, the District's total liabilities increased $134,910 from FY 2017. The Audit Report indicates the major changes were in "Net Pension Liability" and "Net OPEB Liability". Net Pension Liability and Net OPEB Liability increased $57,328 which explains the increase.

In 2017, the District's total liabilities increased $29,011 from FY 2016. The Audit Report indicates the major changes were in "Net Pension Liability" and "Deferred Inflows". Net Pension Liability increased $162,639 which explains the increase.

Net Assets
The District's assets exceeded its liabilities by $2,673,337 and $2,929,535 for fiscal years ended December 31, 2018 and 2017, respectively. This represents a decrease from fiscal year 2017 to 2018 of ($256,198) and 2016 to 2017 of ($178,497). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

Financial Overview (continued)

Net Assets (continued)

cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets

The District's investments in capital assets as of December 31, 2018, 2017 and 2016 amounted to $3,750,468, $3,684,320, and $3,873,816 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included installation of new lines and meters.

Debt Administration

Long-Term Debt

The District has entered into an agreement with the U. S. Department of Agriculture to borrow $1,668,000 and a subsequent $190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The District repaid principal of $24,000 principal payment in January 2018 and $22,500 in January 2017. The loan is a 40 year loan at 3.125% interest payable semi-annually. In addition, prepayment of the loan is not allowed.

Budget

Budget

KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

The District, in April 2018, found and repaired a leak which was losing approximately 150,000 gallons per day. The District continues to vigorously search for and repair leaks throughout their system.

Administrative and General

The District continues to experience an increase in health care and retirement expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future. In addition, accounting pronouncements concerning the CERS pension and OPEB cost continue to rise and affect the bottom line for the District.

The District currently had four full-time employees in 2018 and 2017. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary. In response to these needs the District plans to hire additional field staff in 2019.

The District has experienced changes in the employer contribution rate to CERS for employee pension. The District contributed 21.48% of employees' gross compensation to the plan from July – December and 19.18% from January - June for the year ended December 31, 2018 and 19.18% for July – December and 18.68% from January - June during the year ended December 31, 2017. These rates are expected to continue to increase with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Kentucky Retirement System Board of Trustees had originally set the contribution rate effective July 1, 2018 at 28.05%, however, with the passage of House Bill 362, the rate increases were limited to 12% per fiscal year. The rate for July 1, 2018 through June 30, 2019 is 21.48%.

Overall

The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water loss was still at a very high rate averaging approximately 28.0% of purchased water throughout the year. However, in April 2018 the District discovered a leak underneath U.S. 127 South which was losing approximately 150,000 gallons per day, this discovery and repair should significantly reduce their water loss. Management continues to employ new methods in attempting to find and repair leaks and the percentage loss has dropped from the prior years. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018 & 2017

ASSETS

CURRENT ASSETS	2018	2017
Cash and Cash Equivalents	$ 215,422	$ 429,545
Cash - Restricted Customer Deposits	32,993	32,881
Certificates of Deposit	926,688	923,732
Accounts Receivable	69,688	96,036
Inventory	23,326	18,621
Accrued Interest Receivable	2,864	988
Prepaid Expenses	14,331	14,475
TOTAL CURRENT ASSETS	1,285,312	1,516,278
CAPITAL ASSETS		
Land & Buildings	55,431	55,431
Equipment	150,609	150,609
Vehicles	37,713	37,713
Water Lines, Hydrants, Towers, & Meters	6,342,403	6,048,617
Accumulated Depreciation	(2,835,688)	(2,608,050)
TOTAL CAPITAL ASSETS	3,750,468	3,684,320
NONCURRENT ASSETS		
Cash - Debt Reserve	49,500	39,600
TOTAL NONCURRENT ASSETS	49,500	39,600
DEFERRED OUTFLOWS (from pension & OPEB activity)		
Deferred Outflows - OPEB	30,768	-
Deferred Outflows - Pension	91,711	88,849
TOTAL DEFERRED OUTFLOWS	122,479	88,849
TOTAL ASSETS	$ 5,207,759	$ 5,329,047

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018 & 2017

LIABILITIES

CURRENT LIABILITIES	2018	2017
Accounts Payable	$ 145,652	$ 160,984
Customer Deposits	37,421	34,805
Customer Deposits - Accrued Interest	954	1,052
Accrued Sales Tax	750	545
Accrued School Tax	2,643	2,472
Accrued Payroll Tax	4,543	6,001
Accrued Pension Expense	1,996	3,258
Accrued Loan Interest Payable	27,641	28,016
Current Portion of Noncurrent Liabilities	24,500	24,000
Unearned Income	10,878	7,538
TOTAL CURRENT LIABILITIES	256,978	268,671
NONCURRENT LIABILITIES		
U.S. Department of Agriculture	1,769,000	1,793,000
Current Portion of Noncurrent Liabilities	(24,500)	(24,000)
Net OPEB Liability	108,784	-
Net Pension Liability	373,153	319,298
TOTAL NONCURRENT LIABILITIES	2,226,437	2,088,298
DEFERRED INFLOWS (from pension & OPEB activity)		
Deferred Inflows - OPEB	20,627	-
Deferred Inflows - Pension	30,380	42,543
TOTAL DEFERRED INFLOWS	51,007	42,543
TOTAL LIABILITIES	2,534,422	2,399,512
NET POSITION		
Invested in Capital Assets, net of related debt	1,981,468	1,891,320
Net Assets Restricted	82,493	72,481
Net Assets Unrestriction	609,376	965,734
TOTAL NET POSITION	2,673,337	2,929,535
TOTAL LIABILITIES AND NET POSITION	$ 5,207,759	$ 5,329,047

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

OPERATING REVENUES	2018	2017
User Fees:		
Water - Residential	$ 942,664	$ 943,931
Water - Commercial	162,336	147,321
Sewer Surcharge Fees	69,184	83,500
Tap-on Fees	12,452	9,462
Late Payment Penalty Income	38,550	37,860
Reconnect Fees	7,301	9,172
Gain on Sale of Fixed Assets	-	-
TOTAL OPERATING REVENUES	1,232,487	1,231,246
OPERATING EXPENSES		
Water Purchased	601,186	655,527
Pumping Electricity	20,353	22,469
Payroll	180,122	163,007
Payroll Taxes	14,355	13,644
Employee Benefits	142,987	32,636
Retirement Benefits	65,731	72,322
Transmission and Distribution Expense	22,536	42,364
Administrative and General Expense	67,847	62,954
Interest Paid on Loans	55,281	56,031
Other Interest Expense	435	195
Water Testing	5,933	5,026
Maintenance & Repairs	74,232	43,441
Insurance & Workers' Comp	20,927	21,124
Taxes & Licenses	38,381	36,521
Bad Debts	3,501	2,206
Depreciation	227,638	228,085
TOTAL OPERATING EXPENSES	1,541,445	1,457,552
Operating Loss	(308,958)	(226,306)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

NON OPERATING REVENUES (EXPENSES)	**2018**	**2017**
Sewer Fees Collected	586,271	552,537
Sewer Fees Paid	(540,257)	(508,193)
Interest Income	5,371	2,269
Other Income	1,375	1,196
TOTAL NON OPERATING REVENUES (EXPENSES)	52,760	47,809
Change in Net Position	(256,198)	(178,497)
Net Position - Beginning of Year	2,929,535	3,108,032
Net Position - End of Year	$ 2,673,337	$ 2,929,535

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

Cash Flow from Operating Activities	2018	2017
Cash received from users and customers	$ 1,228,602	$ 1,220,442
Cash payments to employees for services & benefits	(264,086)	(237,391)
Cash payments to suppliers of goods and services	(846,841)	(964,741)
Net Cash Provided (Used) by Operating Activities	117,675	18,310
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(24,000)	(22,500)
Purchase of equipment	(293,787)	(38,588)
Interest paid on Loans	(56,023)	(56,538)
Net Cash Provided (Used) by Capital & Related Financing Activities	(373,810)	(117,626)
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	587,646	552,537
Other non-operating expenses	(737)	56,731
Cash paid out from other non-operating expenses	(540,257)	(508,193)
Net Cash Provided (Used) by Noncapital Financing Activities	46,652	101,075
Cash Flows from Investing Activities		
Receipt of Interest	5,371	2,268
Redemption of a Certificates of Deposit	(122,341)	-
Purchases of Certificates of Deposit	122,341	-
Net Cash Provided (Used) by Investing Activities	5,371	2,268
Net Change in Cash and Cash Equivalents	(204,112)	4,027
Cash and Cash Equivalents, Beginning of Year	502,026	497,999
Cash and Cash Equivalents, End of Year	$ 297,914	$ 502,026
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	$ 75	$ 75
Cash Operations Account	215,346	429,470
Deposit Account	32,993	32,881
Debt Reserve Account	49,500	39,600
	$ 297,914	$ 502,026

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

Reconciliation of Operating Income to Net Cash Provided by Operating Activities		2018		2017
Operating Loss	$	(256,198)	$	(178,497)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities				
Depreciation		227,638		228,085
Bad Debts		3,501		-
Pension/OPEB Changes		137,473		44,219
Change in assets and liabilities				
Certificates of deposit		(2,956)		(1,380)
Accounts receivable		26,348		(1,506)
Inventory		(4,706)		(4,607)
Accrued interest receivable		(1,876)		(377)
Prepaid expenses		144		(565)
Accounts payable		(15,332)		(16,754)
Accrued payroll taxes payable		(1,459)		376
Customer deposits		2,616		(5,160)
Customer deposits - accrued interest		(98)		(2,379)
Accrued sales tax		205		(55)
Accrued school tax		172		110
Accrued pension expense		(1,262)		536
Unearned income		3,340		718
Accrued loan interest payable		(375)		(351)
USDA Loan Payable		500		1,500
Net Cash Provided by Operating Activities	$	117,675	$	63,913

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 & 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statute 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statute mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All of the District's activity is accounted for as business-type activities. Operating revenues relate to the District's primary function of the collection of water sales, likewise, operating expenses include the expenses for the distribution of water to customers. Non-operating revenues and expenses relate to all other revenue and expenses.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, 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 revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net asset use through external 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 – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District does not provide an allowance for uncollectible accounts but rather expenses such items in the period they become uncollectible. This practice differs from generally accepted account principles but its impact is deemed immaterial. The amount written-off for the years ended December 31, 2018 and 2017 totaled $3,501 and $2,206, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District may turn off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000. The District paid $24,000 and $22,500 in principal during calendar years ended December 31, 2018 & 2017, respectively and the loan balance was $1,769,000 and $1,793,000 at December 31, 2018 & 2017, respectively.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the District's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2018 and 2017. See Note 4 for full disclosure of activity.

L. CASH AND CASH EQUIVALENTS

For business type activities all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. PREPAID EXPENSES

Prepaid expenses include expenditures for the insurance and software maintenance made in connection with future program and activities.

N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. Currently, the District has only one item that qualifies for reporting in this category: contributions subsequent to measurement date relating to the retirement information.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Currently, the District has only one item that qualifies for reporting in this category: net difference between projected actual earnings on pension plan investment relating to the retirement information.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of $250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was $297,915 and $502,026 for the years ended December 31, 2018 and 2017, respectively. The carrying amount of the District's certificates of deposit was $926,688 and

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT (continued)

$923,732 for the years ended December 31, 2018 and 2017, respectively. The bank balances and certificates of deposit are covered by $250,000 of FDIC insurance. At various times throughout the year and at year-end, this $250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Bank Balances and Certificates of Deposit at December 31, 2018, categorized by level of risk are:

	Risk Category 1	Risk Category 2	Risk Category 3	Bank Balances	Uninsured Uncollater-alized	Book Value
Unrestricted Bank Balances	$ 215,421	$ -	$ -	$ 215,421	$ -	$ 215,421
Restrict Bank Balance	34,579	-	-	34,579	47,914	82,493
Certificates of Deposit	926,688	-	-	926,688	-	926,688
Total	$1,176,688	$ -	$ -	$ 1,176,688	$ 47,914	$1,224,602

Bank Balances and Certificates of Deposit at December 31, 2017, categorized by level of risk are:

	Risk Category 1	Risk Category 2	Risk Category 3	Bank Balances	Uninsured Uncollater-alized	Book Value
Unrestricted Bank Balances	$ 250,000	$ -	$ -	$ 250,000	$ 179,470	$ 429,470
Restrict Bank Balance	-	-	-	-	72,481	72,481
Certificates of Deposit	726,694	-	-	726,694	197,038	923,732
Total	$ 976,694	$ -	$ -	$ 976,694	$ 448,989	$1,425,683

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District's threshold for capitalization is $2,500. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

The following represents the activity for the year ended December 31, 2018:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 37,713	$ 6,048,617	$6,292,370
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	- 0-	-0-	-0-	293,787	293,787
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,342,404	$ 6,586,157

The following represents the activity for the year ended December 31, 2017:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 37,713	$ 6,010,029	$6,253,782
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	- 0-	-0-	-0-	38,588	38,588
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,048,617	$ 6,292,370

A summary of property and equipment and depreciation for the years ended December 31, 2018 and 2017 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2018	Property & Equipment	$6,586,157	$ 227,638	$ 2,835,688
FY 2017	Property & Equipment	$6,292,370	$ 228,085	$ 2,608,050

Land valued at $4,806 is not being depreciated.

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Tier 1 Non-Hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 Non-Hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age plus earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 Non-Hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. Senate Bill 2 of 2013 eliminated all future COLA's unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA was granted for the fiscal years ending June 30, 2018 or 2017.

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Employees covered by benefit terms: At the measurement date of June 30, 2018 and 2017:

	2018	2017
Estimated Inactive employees/beneficiaries currently receiving benefits	1	1
Estimated Inactive employees/beneficiaries not currently receiving benefits	1	1
Active employees	4	4
Total	6	6

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were $65,731 and $72,322 for the year ended December 31, 2018 and 2017, respectively. The District contributed 21.48% of employees' gross compensation to the plan from July – December and 19.18% from January - June for the year ended December 31, 2018. The District contributed 19.18% of employees' gross compensation to the plan from July – December and 18.68% from January - June for the year ended December 31, 2017. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

Actuarial Assumptions:

The total pension liability as of June 30, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.30% for June 30, 2018 and for June 30, 2017

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Salary increases	Representative values of the assumed annual rates of future salary increases from 3.05% for June 30, 2018 and 2017 including inflation
Investment rate of return	6.25% per annum @ June 30, 2018 and 2017 net of pension plan investment expense, including inflation

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 actuarial assumptions used in the June 30, 2018 and 2017 actuarial valuation was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 and 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods and data, as of that date. The roll-forward is based on the results of GRS' replication.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. 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 (see chart below). 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 assumptions are intended to be long-term assumptions

NOTE 4 - EMPLOYEE RETIREMENT (continued)

and are 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 long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 6.25% for June 30, 2018 and 6.25% for June 30, 2017 based on a blending of the factors described below:

June 30, 2018

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
U.S. Equity:	14.50%	17.50%
International Equity	13.75%	17.50%
Global Bonds	3.00%	10.00%
Credit Fixed	15.25%	17.00%
Private Equity	6.50%	10.00%
Real Estate	7.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	5.00%	10.00%
Cash	1.50%	3.00%
		100.00%

June 30, 2017

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
Combined Equity	5.40%	44%
Combined Fixed Income	1.50%	19%
Real Return (Diversified Inflation Strategies)	3.50%	10%
Real Estate	4.50%	5%
Absolute Return (Diversified Hedge Funds)	4.25%	10%
Private Equity	8.50%	10%
Cash	(.25)%	2%
		100.00%

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Discount Rate:

The discount rate used to measure the total pension liability was 6.25% for June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent for June 30, 2018, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District net pension liability - 2018	$ 469,761	$ 373,153	$ 292,212

The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent for June 30, 2017, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District net pension liability - 2017	$ 402,704	$ 319,298	$ 249,530

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

At December 31, 2018, the District reported a liability of $373,153 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating CERS members, actuarially determined. At June 30, 2018, the District recognized pension expense of $65,731. At December 31, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Amounts per audited KRS financial report	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 12,171	$ 5,462
Changes in Assumptions	36,468	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	17,352	21,826
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	25,720	3,092
Measurement Date of June 30	$ 91,711	$30,380

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments and Contribution Subsequent to the Measurement Date of June will be recognized in pension expense as follows:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Year Ended June 30:

2019	$	38,088
2020		25,245
2021		1
2022		(2,003)
Total	$	61,331

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2018, the District contributed 19.18% from January – June and 21.48% thereafter. In 2017, the District contributed 18.68% from January – June and 19.18% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan $1,996 and $3,258 at December 31, 2018 and 2017, respectively.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended June 30, 2018, determined as of June 30, 2016. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	27 Years for June 30, 2018, closed and 28 Years for June 30, 2017
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized for the year ended June 30, 2018 and 2017
Inflation	3.25 Percent for June 30, 2018 & June 30, 2017
Salary Increase	4.0 Percent Average for June 30, 2018 and June 30, 2017
Payroll Growth Rate	4.0%
Investment Rate of Return	7.50 Percent for June 30, 2018 and for June 30, 2017, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	June 30, 2016

NOTE 4 - EMPLOYEE RETIREMENT (continued)

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS

In addition to the pension benefits described in Note 4, the District participates in the Kentucky Retirement Systems Insurance fund (Fund). The Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701 to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System (KRS). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase medical insurance.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), 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 a 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. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

NOTE 5 – – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District's contractually required contribution rate for the period of January 2018 through June 2018 was 4.70% of covered payroll and the contribution rate for the period July 2018 through December 2018 was 5.26%. Contributions to the Insurance Fund from the District were $7,802 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

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

At December 31, 2018, the District reported a liability of $108,784 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for the plan fiscal year 2018 (July 1, 2017 through June 30, 2018). This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2018, the District's proportion was 0.006127%.

For the year ended December 31, 2018, the District recognized OPEB expense of $98,643, included as part of employment benefits of $142,987. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

Amounts per audited KRS financial report	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ -0-	$ 12,677
Changes in Assumptions	21,726	251
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-0-	7,493
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	9,042	206
Measurement Date of June 30	$ 30,768	$ 20,627

Of the total amount reported as deferred outflows of resources related to OPEB, $6,842 resulting from the District's contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ended June 30:

2019	$ 2,045
2020	2,045
2021	2,045
2022	3,500
2023	(33)
Thereafter	(204)
Total	$ 9,398

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates:

Inflation	2.30 Percent
Salary Increase	3.05 Percent
Investment Rate of Return	6.25 Percent
Healthcare cost trend rates Pre-65	Initial trend starting at 7.00% as of January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Healthcare cost trend rates Post-65	Initial trend starting at 5.00% as of January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

The long-term expected rate of return was determined by using a building-block method in which 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 below:

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
U.S. Equity:		
US Large Cap	4.50%	5.00%
US Mid Cap	4.50%	6.00%
US Small Cap	5.50%	6.50%
International Equity		
International Developed	6.50%	12.50%
Emerging Markets	7.25%	5.00%
Global Bonds	3.00%	4.00%
Credit Fixed	23.75%	24.00%
Private Equity	6.50%	10.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Cash	1.50%	2.00%
		100.00%

Discount rate. The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the collective net OPEB liability as well as what the RWGS's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.85%) or 1 percentage point higher (6.85%) than the current discount rate:

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
District's Net OPEB liability	$ 141,761	$ 108,784	$ 81,092

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following table presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
District's Net OPEB Liability	$ 81,092	$ 108,784	$ 141,544

The amount of contribution paid by the Fund is based on years of service. For members participating prior to July 1, 2003, the years of service and respective percentages of the maximum contribution were as follows:

Years of Service	Paid by Insurance Fund
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

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 ten years, non-hazardous employees who participating began on or after July 1, 2003 earn ten dollars ($10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%.

The estimated accrued interest on these deposits at December 31, 2018 & 2017 was $954 and $1,052, respectively.

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2018 and 2017 by $12,452 and $9,462, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855-10-50-1 "Subsequent Events". The Organization evaluated events occurring between the end of its most recent year end and this report date. Management believes no significant events occurred subsequent to the date of this report which is the date the financial statements were available to be issued.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principal payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit $750 per month for the original loan and $75 per month for the subsequent loan until such time the account reaches $98,500. Management has opened this account and had a balance of $49,500 at December 31, 2018 and $39,600 at December 31, 2017.

The District paid $24,000 of principal on January 1, 2018 and $22,500 of principal on the loan on January 1, 2017. In addition another $24,500 in principal is due on January 1, 2019. Total interest expense on this loan was $55,281 and $56,031 for December 31, 2018 and 2017, respectively.

The District's long-term debt at December 31, 2018 is detailed as follows:

	Principal Balance 12/31/17	Borrowings	Payments	Principal Balance 12/31/18	Current Portion	Long-Term Portion
USDA Loan	$1,793,000	-0-	$ 24,000	$ 1,769,000	$ 24,500	$ 1,744,500

The District's long-term debt at December 31, 2017 is detailed as follows:

	Principal Balance 12/31/16	Borrowings	Payments	Principal Balance 12/31/17	Current Portion	Long-Term Portion
USDA Loan	$1,815,500	-0-	$ 22,500	$ 1,793,000	$ 24,000	$ 1,769,000

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021	26,500	52,891	79,391
2022	27,500	52,031	79,531
2023	29,000	51,125	80,125
2024 - 2026	94,000	147,578	241,578
2027 – 2031	185,000	224,063	409,063
2032 - 2036	226,500	191,375	417,875
2037 – 2041	278,500	151,203	429,703
2042 – 2046	340,500	102,062	442,562
2047 – 2051	418,000	41,750	459,750
2052	93,500	- 0 -	93,500
Total	$ 1,769,000	$ 1,122,313	$2,891,313

NOTE 10 – RISK MANAGEMENT

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

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2018 and 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 June 10, 2019.

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 opinions 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 over financial reporting.

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 over financial reporting 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audits, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audits, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

2017-1 FDIC Coverage of Deposits and Certificates of Deposit

Condition – The District does not have internal control procedures designed to ensure that all deposit accounts and certificates of deposits are covered by FDIC insurance. At many times throughout the year the balances exceeded the $250,000 FDIC insurance coverage putting these funds at risk of loss if the bank were to fail.

Criteria – A good system of internal control establishes internal controls which effectively and timely ensure all assets are adequately insured.

Effect – Inadequate controls could result in significant financial loss if the banks were to fail.

Cause – District personnel have not adequately monitored bank balances to ensure all accounts have adequate insurance.

Recommendation – We recommend management review total funds at all banking institutions and move funds as needed to ensure adequate FDIC coverage.

Management Response – Management agrees and will implement the policy immediately.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated June 10, 2019.

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.

Harrod & Associates, PSC
Frankfort, KY 40601

June 10, 2019

REQUIRED SUPPLEMENTAL INFORMATION

FARMDALE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017
(in thousands)

	2018	2017	2016	2015
Total Net Pension Liability for County Employees Retirement System (in thousands)	$ 6,090,305	$ 5,853,443	$ 4,299,525	$ 3,244,377
Employer's Proportion (Percentage) of Net Pension Liability	0.00613%	0.00546%	0.00532%	0.00600%
Employer's Proportion (Amount) of Net Pension Liability	$ 373,153	$ 319,298	$ 261,970	$ 257,923
Employer's Covered-Employer Payroll	$ 125,739	$ 148,407	$ 120,993	$ 138,847
Employer's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of Employer's Covered-Employer Payroll	296.77%	215.60%	216.52%	185.76%
Total Pension Plan's Fiduciary Net Position (in thousands)	$ 7,018,963	$ 6,687,237	$ 6,440,800	$ 6,528,146
Total Pension Plan's Pension Liability (in thousands)	$ 13,109,268	$ 12,540,545	$ 10,740,325	$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	53.54%	53.32%	59.97%	66.80%

See Independent Auditor's Report

FARMDALE WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

	2018	2017	2016	2015
Actuarially Determined Contribution	$ 21,989	$ 18,528	$ 15,116	$ 54,050
Contributions in Relation to the Actuarially Determined Contribution	24,042	28,103	26,755	31,828
Contribution Deficiency (Excess)	(2,053)	(9,575)	(11,639)	22,222
Covered-Employee Payroll	$ 125,739	$ 148,407	$ 120,993	$ 138,847
Contributions as a Percentage of Covered-Employee Payroll	19.12%	18.94%	22.11%	22.92%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	27 Years for June 30, 2018, closed and 28 Years for June 30, 2017
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized for the year ended June 30, 2018 and 2017
Inflation	3.25 Percent for June 30, 2018 & June 30, 2017
Salary Increase	4.0 Percent Average for June 30, 2018 and June 30, 2017,
Payroll Growth Rate	4.00%
Investment Rate of Return	7.50 Percent for June 30, 2018 and for June 30, 2017, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	06/30/2016

See Independent Auditor's Report

FARMDALE WATER DISTRICT
SCHEDULE OF NET OPEB LIABILITY AND RELATED RATIONS BASED ON PARTICIPATION IN CERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(in thousands)

	2018
Total Net OPEB Liability for County Employees Retirement System (in thousands)	$ 1,775,480
Employer's Proportion (Percentage) of Net OPEB Liability	0.00613%
Employer's Proportion (Amount) of Net OPEB Liability	$ 108,784
Employer's Covered-Employer Payroll	$ 125,739
Employer's Proportionate Share (Amount) of the Net OPEB Liability as a Percentage of Employer's Covered-Employer Payroll	86.52%
Total OPEB Plan's Fiduciary Net Position (in thousands)	$ 2,414,126
Total OPEB Plan's OPEB Liability (in thousands)	$ 4,189,606
Total OPEB Plan's Fiduciary Net Position as a Percentage of Total OPEB Liability	57.62%

See Independent Auditor's Report

FARMDALE WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS INSURANCE FUND
FOR THE YEARS ENDED DECEMBER 31, 2018

	2018
Actuarially Determined Contribution	$ 7,137
Contributions in Relation to the Actuarially Determined Contribution	7,802
Contribution Deficiency (Excess)	(665)
Covered-Employee Payroll	$ 125,739
Contributions as a Percentage of Covered-Employee Payroll	6.20%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.
See independent auditor's report.

Notes to Schedules Related to the County Employees' Insurance Fund of KRS Information

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2018:

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date	06/30/2016
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll Growth Rate	4.00 percent
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Investment Rate of Return	7.50 percent
Retirement age	65 years or 27 years of service regardless of age
Healthcare Trend Rates Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Trend Rates Post – 65	Post - 65 Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

See Independent Auditor's Report

2015 Audit

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 & 2014

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

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KENTUCKY SOCIETY OF CPA'S

Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2015 and 2014, and the related notes to the 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 of material misstatement.

An audit includes 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Farmdale Water District as of December 31, 2015 and 2014, and the respective changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2016 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.

Harrod & Associates, PSC
Frankfort, KY 40601

June 1, 2016
cys: 4

FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2015 & 2014

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May, 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013.

Financial Highlights

In 2015, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,240,003. Of this amount $2,233,894 was invested in Capital Assets, net of $19,800 restricted for debt retirement, and $986,309 was unrestricted. In 2015, the Board's net assets decreased ($106,766), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

In 2014, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,346,769. Of this amount $2,372,460 was invested in Capital Assets, net of debt, and $974,309 was unrestricted. In 2014, the Board's net assets decreased ($239,868), primarily through an increase in payroll, employee benefits and depreciation.

Revenues
Gross income from the sale of water, including tap on fees and reconnect fees totaled $1,225,181 and $992,251 for the calendar years 2015 and 2014, respectively. The Kentucky Public Service Commission (PSC) approved two rate increases in 2015, both of these requests were in response to increases in the cost of water purchased from the Frankfort Plant Board. One of these increases was effective in January 2015 and the other in October 2015. In 2014, one rate increase was effective beginning with the September billing. This rate increase submitted on December 30, 2013, was submitted to assist in meeting the cost of federal loan debt retirement.

Expenses
Operating expenses were $1,383,147 and $1,256,660 for the calendar years 2015 and 2014, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased", "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses", and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,600 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of two components:

>Financial Statements
>Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in

Financial Overview (continued)

some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2015 and 2014 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 34 of this report.

Statement of Net Position Overview

The District was not required to have an audit under A-133 for 2015.

Statement of Net Position	2015	2014	Change	% Change
Capital Assets	4,091,895	4,230,460	(138,565)	(3.27%)
Current and other assets	1,434,758	1,440,179	(5,421)	(0.38%)
Other Assets	54,054	17,000	37,054	217.96%
Total Assets	5,580,707	5,687,639	(106,932)	(1.88%)
Long-term Liabilities	1,815,500	1,837,000	(21,500)	1.13%
Other Liabilities	525,704	503,870	21,834	(4.33%)
Total Liabilities	2,341,204	2,340,870	334	(0.01%)
Net Position:				
Invested in Capital Assets	2,233,894	2,372,460	(138,566)	(5.84%)
Restricted	19,800	- 0 -	19,800	0.00%
Unrestricted	986,309	974,309	12,000	1.23%
Total Net Position	3,240,003	3,346,769	(106,766)	(3.19%)

Financial Overview (continued)

Statement of Net Position Overview (continued)
The District was not required to have an audit under A-133 for 2014 but was for 2013.

Statement of Net Position	2014	2013	Change	% Change
Capital Assets	4,230,460	4,428,316	(197,856)	(4.47%)
Current and other assets	1,451,179	1,468,552	(17,373)	(1.18%)
Total Assets	5,681,639	5,896,868	(215,229)	(3.65%)
Long-term Liabilities	1,837,000	1,858,000	(21,000)	(1.13%)
Other Liabilities	503,870	236,233	267,637	113.29%
Total Liabilities	2,234,870	2,094,233	246,637	11.78%
Net Position:				
Invested in Capital Assets	2,372,460	2,570,316	(197,856)	(7.70%)
Unrestricted	974,309	1,232,319	(258,010)	(20.94%)
Total Net Position	3,346,769	3,802,635	(455,866)	(11.99%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev, Exp. and Changes in Net Position	2015	2014	Change	% Change
Operating Revenues	1,225,181	992,251	232,930	23.47%
Operating Expenses	1,383,147	1,256,660	126,487	10.07%
Operating Income/(Loss)	(157,966)	(264,409)	106,443	(40.26%)
Net Non-Operating Income	51,200	24,541	26,659	108.64%
Change in Net Position	(106,766)	(239,868)	133,102	55.49%

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2015 & 2014

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev, Exp. and Changes in Net Position	2014	2013	Change	% Change
Operating Revenues	992,251	851,202	141,049	16.57%
Operating Expenses	1,256,660	993,423	263,237	26.50%
Operating Income/(Loss)	(264,409)	(142,221)	(122,188)	85.91%
Net Non-Operating Income	24,541	44,113	(19,572)	(44.37%)
Change in Net Position	(239,868)	(98,108)	(141,760)	(144.49%)

Assets
In 2015, the District's total assets decreased $106,932 from FY 2014. The Audit Report indicates the major decreases were in "Fixed Assets" due to the depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

In 2014, the District's total assets decreased $209,229 from FY 2013. The Audit Report indicates the major decreases were in "Fixed Assets" due to the depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

Liabilities
In 2015, the District's total liabilities decreased $166 from FY 2014. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". The principle payments on the loan from the U.S. Department of Agriculture began in 2015, as indicated by the "Current Portion of Noncurrent Liabilities".

In 2014, the District's total liabilities increased $246,637 from FY 2013. The Audit Report indicates the major changes were in "Accounts Payables", "Unearned Income" and "Accrued Pension Obligation". The principle payments on the loan from the U.S. Department of Agriculture did not begin until 2015, as indicated by the "Current Portion of Noncurrent Liabilities".

Net Assets
The District's assets exceeded its liabilities by $3,240,003 and $3,346,769 for fiscal years ended December 31, 2015 and 2014, respectively. This represents a decrease from fiscal year 2014 to 2015 of ($106,766) and 2013 to 2014 of ($239,868). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

Net Assets (continued)
cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets
The District's investments in capital assets as of December 31, 2015, 2014 and 2013 amounted to $4,091,895, $4,230,460 and $4,428,316 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included:

The District, through self funding, grants from Kentucky Infrastructure Authority and loans from the U.S. Department of Agriculture completed the following improvements to their system, in 2013:

- Upgrades to the water line and pump station;
- Built a 500,000 gallon elevated water storage tank;
- Installed a Supervisory Control and Data Acquisition System which controls and monitors the pump stations and tanks; and
- Installed an automated meter reading system which will allow the District to read meters via radio waves.

Debt Administration

Long-Term Debt

The District has entered into an agreement with the U. S. Department of Agriculture to borrow $1,668,000 and a subsequent $190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The repayment of principle began with a $21,000 principal payment in January 2015 and $21,500 in January 2016. The loan is a 40 year loan at 3.125% interest payable semi-annually.

Budget

Budget

KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

The District, in 2013, completed a project which updated their water lines, storage capacity, and monitoring capability of much of their system.

Administrative and General

The District continues to experience an increase in health care expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future.

The District lost two employees in 2015 but did hire one replacement in September 2015. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary.

The District has experienced changes in the employer contribution rate to CERS for employee pension. In 2015, the employer share rate was 17.67% from July – December and changed to 17.06% for January – June, a 3.45% decrease. In 2014, the employer share rate was 18.89% for July – December and changed to 17.67% from January – June, a 6.46% decrease. These rates are expected to continue to fluxuate with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Future (continued)

Overall

The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water lost was still at a very high rate averaging approximately 42% of purchased water throughout the year. Leaks in the old part of the system were the main source of these substantial losses. Management has taken action to find and repair leaks and the percentage loss dropped through the end of 2015. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

Farmdale Water District
Statement of Net Position
December 31, 2015 & 2014

ASSETS

CURRENT ASSETS	2015	(Restated) 2014
Cash and Cash Equivalents (Note 1)	$ 325,688	$ 240,308
Cash - Debt Reserve (Note 1)	19,800	-
Certificates of Deposit (Note 1)	959,489	1,061,924
Accounts Receivable (Note 1)	104,588	108,073
Inventory (Note 1)	12,649	14,303
Accrued Interest Receivable	641	440
Prepaid Expenses	11,903	15,131
TOTAL CURRENT ASSETS	1,434,758	1,440,179
CAPITAL ASSETS (Note 3)		
Land & Buildings	55,431	47,491
Equipment	150,609	143,676
Vehicles	51,568	29,462
Water Lines, Hydrants, Towers, & Meters	5,999,541	5,950,426
Accumulated Depreciation	(2,165,254)	(1,940,595)
TOTAL CAPITAL ASSETS	4,091,895	4,230,460
DEFERRED OUTFLOWS (Note 4)		
Contributions Subsequent to Measurement Date	54,054	17,000
TOTAL OTHER ASSETS (Deferred Outflows)		
TOTAL ASSETS	$ 5,580,707	$ 5,687,639

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Net Position
December 31, 2015 & 2014

LIABILITIES & DEFERRED INFLOWS

CURRENT LIABILITIES	2015	(Restated) 2014
Accounts Payable	$ 142,610	$ 148,229
Customer Deposits	37,315	39,315
Customer Deposits - Accrued Interest (Note 6)	3,550	5,286
Accrued Sales Tax	599	586
Accrued School Tax	2,408	2,552
Accrued Payroll Tax	4,840	4,724
Accrued Pension Expense (Note 4)	2,116	2,817
Accrued Loan Interest Payable (Note 9).	28,703	29,031
Current Portion of Noncurrent Liabilities	21,500	21,000
Unearned Income	11,510	17,330
TOTAL CURRENT LIABILITIES	255,151	270,870
NONCURRENT LIABILITIES		
U.S. Department of Agriculture (Note 9)	1,837,000	1,858,000
Current Portion of Noncurrent Liabilities	(21,500)	(21,000)
Net Pension Liability (Note 4)	257,923	210,000
TOTAL NONCURRENT LIABILITIES	2,073,423	2,047,000
DEFERRED INFLOWS (from pension activity)		
Net Difference Between Projected Actual Earnings on Pension Plan Investments	12,130	23,000
TOTAL DEFERRED INFLOWS	12,130	23,000
TOTAL LIABILITIES	2,340,704	2,340,870

NET POSITION

Invested in Capital Assets, net of related debt	2,233,894	2,372,460
Restricted Net Assets	19,800	-
Unrestricted Net Assets, as Adjusted (Note 10)	986,309	974,309
TOTAL NET POSITION	3,240,003	3,346,769
TOTAL LIABILITIES AND NET POSITION	$ 5,580,707	$ 5,687,639

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2015 & 2014

	2015	(Restated) 2014
OPERATING REVENUES		
User Fees:		
Water - Residential	$ 905,489	$ 760,310
Water - Commercial	142,334	93,012
Sewer Surcharge Fees	83,806	89,120
Tap-on Fees	5,660	4,912
Late Payment Penalty Income	39,433	35,816
Reconnect Fees	11,014	9,081
Reimbursement Income	37,445	-
TOTAL OPERATING REVENUES	1,225,181	992,251
OPERATING EXPENSES		
Water Purchased	656,163	506,732
Pumping Electricity	21,110	20,094
Payroll	172,041	180,520
Payroll Taxes	14,021	14,055
Employee Benefits	29,216	33,561
Retirement Benefits (Note 4)	24,111	26,147
Transmission and Distribution Expense	34,243	45,276
Administrative and General Expense	62,607	71,812
Interest Paid on Loans	57,406	58,062
Other Interest Expense	41	69
Water Testing	5,714	5,234
Maintenance & Repairs	17,813	19,129
Insurance & Workers' Comp	22,802	20,982
Taxes & Licenses	34,189	28,275
Bad Debts (Note 1)	7,011	3,829
Depreciation (Note 3)	224,659	222,883
TOTAL OPERATING EXPENSES	1,383,147	1,256,660
Operating Income	(157,966)	(264,409)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2015 & 2014

NONOPERATING REVENUES (EXPENSES)	2015	(Restated) 2014
Sewer Fees Collected	518,055	526,965
Sewer Fees Paid	(474,900)	(505,268)
Interest Income	2,076	2,068
Other Income	5,969	776
TOTAL NONOPERATING REVENUES (EXPENSES)	51,200	24,541
Change in Net Position	(106,766)	(239,868)
Net Position - Beginning of Year	3,346,769	3,802,637
Cumulative Effect of Accounting Principle Change Relating to Pensions on Years Prior to December 31, 2014 (Note 10)	-	(216,000)
Net Position - End of Year	$ 3,240,003	$ 3,346,769

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Cash Flows
For the Years Ended December 31, 2015 & 2014

	2015	2014
Cash Flow from Operating Activities		
Cash received from users and customers	$ 1,202,460	$ 965,311
Cash payments to employees for services & benefits	(215,278)	(254,283)
Cash payments to suppliers of goods and services	(840,096)	(694,159)
Net Cash Provided (Used) by Operating Activities	147,086	16,869
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(21,000)	-
Purchase of equipment	(86,093)	(25,027)
Interest paid on Loans	(57,447)	(58,131)
Net Cash Provided (Used) by Capital & Related Financing Activities	(164,540)	(83,158)
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	518,055	526,965
Other non-operating income	5,969	775
Cash paid out from other non-operating expenses	(507,407)	(516,302)
Net Cash Provided (Used) by Noncapital Financing Activities	16,617	11,438
Cash Flows from Investing Activities		
Receipt of Interest	2,076	2,068
Redemption of a Certificates of Deposit	103,941	65,339
Net Cash Provided (Used) by Investing Activities	106,017	67,407
Net Change in Cash and Cash Equivalents	105,180	12,556
Cash and Cash Equivalents, Beginning of Year	240,308	227,752
Cash and Cash Equivalents, End of Year	$ 345,488	$ 240,308
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on hand	$ 75	$ 75
Cash Operations Account	291,408	175,700
Deposit account	34,205	36,653
Construction account	-	27,880
Debt Reserve Account	19,800	27,880
	$ 345,488	$ 268,188

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District
Statement of Cash Flows
For the Years Ended December 31, 2015 & 2014

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	2015	2014
Operating Income	$ (157,966)	$ (264,409)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	224,659	222,883
Bad Debts	7,011	3,829
Change in assets and liabilities		
Certificates of deposit	102,435	63,624
Accounts receivable	3,485	(17,529)
Inventory	1,654	(979)
Accrued interest receivable	(201)	(8)
Prepaid expenses	3,228	(4,179)
Accounts payable	(5,619)	2,639
Accrued payroll taxes payable	116	522
Customer deposits	(2,000)	(1,715)
Customer deposits - accrued interest	(1,736)	(426)
Accrued sales tax	13	208
Accrued school tax	(144)	718
Accrued pension expense	(701)	(6)
Unearned income	(5,820)	11,697
Accrued loan interest payable	(328)	-
USDA Loan Payable	(21,000)	-
Net Cash Provided by Operating Activities	$ 147,086	$ 16,869

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 & 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Operating revenues relate to the District's primary function of the collection of water sales. Non-operating revenues relate to all other revenue.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, 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 revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not include in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net asset use through external 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 – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District writes off accounts deemed uncollectible resulting from the customer's failure to pay. The amount written-off for the years ended December 31, 2015 and 2014 totaled $7,011 and $3,829, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 & 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District turns off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000. The District paid $21,000 in principle during 2015 and the balance at December 31, 2015 was $1,837,000.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Commission's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2015 and 2014. See Note 4 for full disclosure of activity.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSITS

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of $250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was $345,413 and $240,233 for the years ended December 31, 2015 and 2014, respectively. The carrying amount of the District's certificates of deposit was $959,489 and $1,061,924 for the years ended December 31, 2015 and 2014, respectively. The bank balances and certificates of deposit are covered by $250,000 of FDIC insurance. At various times throughout the year and at year-end, this $250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSITS (continued)

Bank Balances and Certificates of Deposits at December 31, 2015, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Book Value
Unrestricted					
Bank Balances	$ 325,688	$ -	$ -	$ 325,688	$ 325,688
Restrict Bank Balance	19,800	-	-	19,800	19,800
Certificates of Deposit	959,489	-	-	-	959,489
Total	$ 1,304,977	-	-	$ 345,488	$ 1,304,977

Bank Balances and Certificates of Deposits at December 31, 2014, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Book Value
Unrestricted					
Bank Balances	$ 240,308	$ -	$ -	$ 240,308	$ 240,308
Certificates of Deposit	1,061,924	-	-	-	1,061,924
Total	$ 1,302,232	-	-	$ 240,308	$ 1,302,232

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT (continued)

The following represents the activity for the year ended December 31, 2015:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 47,491	$ 143,676	$ 29,462	$ 5,950,426	$6,171,055
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	7,940	6,933	22,106	49,115	86,094
Ending	$ 55,431	$ 150,609	$ 51,568	$ 5,999,541	$ 6,257,149

The following represents the activity for the year ended December 31, 2014:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 47,491	$ 143,676	$ 28,562	$ 5,926,299	$6,146,028
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	-0-	-0-	900	24,127	25,027
Ending	$ 47,491	$ 143,676	$ 29,462	$ 5,950,426	$ 6,171,055

A summary of property and equipment and depreciation for the years ended December 31, 2015 and 2014 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2015	Property & Equipment	$6,257,149	$ 224,659	$ 2,165,254
FY 2014	Property & Equipment	$6,171,055	$ 222,883	$ 1,940,595

Land valued at $4,806 is not being depreciated.

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

Employees covered by benefit terms: At the measurement date of June 30, 2015 and 2014:

Estimated Inactive employees or beneficiaries currently receiving benefits	1
Estimated Inactive employees or beneficiaries not currently receiving benefits	1
Active employees	3
Total	5

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were $24,111 and $26,147 for the year ended December 31, 2015 and 2014, respectively. The District contributed 17.67% of employees' gross compensation to the plan from July – December and 17.06% from January to June for the year ended December 31, 2015 and 18.96% for July – December and 17.67% from January to June during the year ended December 31, 2014. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date. (See Note 10 for a restatement related to the net pension liability).

Actuarial Assumptions:

The total pension liability as of June 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent for June 30, 2015 and 3.5 percent for June 30, 2014.
Salary increases	Representative values of the assumed annual rates of future salary increases from 4.0% average for June 30, 2015 and 4.5% average for June 30, 2014 including inflation.
Investment rate of return	7.50% per annum @ June 30, 2015 and 7.75% at June 30, 2014 per annum, compounded annually for retirement and insurance benefits.

NOTE 4- EMPLOYEE RETIREMENT (continued)

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Table for other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 and 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2013 for June 30, 2015 and July 1, 2005 through June 30, 2008 for June 30, 2014. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. 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 (see chart below). 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 assumptions are intended to be long-term assumptions and are 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 long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50% for June 30, 2015 and 7.75 % for June 30, 2014 based on a blending of the factors described below:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
Domestic Equity	8.45%	30.00%
International Equity	8.85%	22.00%
Emerging Market Equity	10.50%	5.00%
Private Equity	11.25%	7 .00%
Real Estate	7.00%	5.00%
Core US Fixed Income	5.25%	10.00%
High Yield US Fixed Income	7.25%	5.00%
Non US Fixed Income	5.50%	5.00%
Commodities	7.75%	5.00%
TIPS	5.00%	5.00%
Cash	3.25%	1.00%
		100.00%

Discount Rate:

The discount rate used to measure the total pension liability was 7.50% for June 30, 2015 and 7.75 % for June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.50 percent for June 30, 2015, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District net pension liability - 2015	$ 339,409	$ 257,923	$ 185,928

NOTE 4 - EMPLOYEE RETIREMENT (continued)

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.75 percent for June 30, 2014, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District net pension liability - 2014	$ 276,346	$ 210,000	$ 151,382

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

For the year ended December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

The amount shown below for "Contributions Subsequent to the Measurement Date of June 30, 2015 and 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

	12/31/15	12/31/14	Total
Net Difference Between Projected Actual Earnings on Pension Plan Investments	$ (12,130)	$ (23,000)	$ (35,130)
Contributions Subsequent to the Measurement Date of June 30	$ 54,054	17,000	$ 71,054

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments related to pensions will be recognized in pension expense as follows:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Year Ended June 30:

2016	$	(3,033)
2017		(3,033)
2018		(3,032)
2019		(3,032)
	$	(12,130)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2015, the District contributed 17.67% from January – June and 17.06% thereafter. In 2014, the District contributed 18.89% from January through June and 17.67% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan $2,116 and $2,817 at the end of 2015 and 2014, respectively.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. 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:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, closed
Remaining Amortization Period	28 Years for June 30, 2015 and 30 Years for June 30, 2014
Asset Valuation Method	5-Year Smoothed Market
Inflation	3.25 Percent for June 30, 2015 and 3.50 Percent for June 30, 2014
Salary Increase	4.0 Percent Average for June 30, 2015 and 4.5 Percent, Average for June 30, 2014, Including Inflation
Investment Rate of Return	7.50 Percent for June 30, 2015 and 7.75 Percent for June 30, 2014, net of Pension Plan Investment Expense, Including Inflation

NOTE 4 - EMPLOYEE RETIREMENT (continued)

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 - WATER STORAGE TANK PROJECT

The District was awarded a combination of state and federal funds to build a new storage tank and water lines for a portion of their service area. The District began the construction phase in the summer of 2012 and completed the project in November 2013. The District estimated a cost of $3.39 million; the final cost was approximately $3.53 million. The funding for this project included a $1.858 million loan from the federal government Department of Agriculture, over $1.22 million in Kentucky Infrastructure Grants and $500,000 in District funds.

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%. The estimated accrued interest on these deposits at December 31, 2015 & 2014 was $3,550 and $5,286, respectively.

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2015 and 2014 by $5,660 and $4,912, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855 "Subsequent Events". The District evaluated events occurring between the end of its most recent year end and this report date, which is the date these financial statements were available to be issued and found no reportable events.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principle payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit $750 per month for the original loan and $75 per month for the subsequent loan until such time the account reaches $98,500. Management has opened this account and had a balance of $19,800 at December 31, 2015.

The District paid $21,000 of principle on the loan on January 1, 2015. In addition another $21,500 in principle is due on January 1, 2016. Total interest paid on this loan was $57,406 and $58,062 for December 31, 2015 and 2014, respectively.

The District's long-term debt at December 31, 2015 is detailed as follows:

	Principal Balance 12/31/14	Borrowings	Payments	Principal Balance 12/31/15	Current Portion	Long-Term Portion
USDA Loan	$1,858,000	-0-	$ 21,000	$ 1,837,000	$ 21,500	$ 1,815,500

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The District's long-term debt at December 31, 2014 is detailed as follows:

	Principal Balance 12/31/13	Borrowings	Payments	Principal Balance 12/31/14	Current Portion	Long-Term Portion
USDA Loan	$1,858,000	$ -0-	$ -0-	$ 1,858,000	$ 21,000	$ 1,837,000

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2016	$ 21,500	$ 56,734	$ 78,234
2017	22,500	56,031	78,531
2018	24,000	55,281	79,281
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021 - 2025	144,500	255,437	399,937
2026 – 2030	177,500	229,844	407,344
2031 - 2035	217,500	198,453	415,953
2036 – 2040	267,500	159,906	427,406
2041 – 2045	327,000	112,703	439,703
2046 – 2050	401,000	54,812	456,312
2051 – 2052	184,000	2,922	186,422
Total	$ 1,837,000	$ 1,290,358	$3,127,358

NOTE 10 – RESTATEMENT OF BEGINNING NET ASSETS RELATED TO CALENDAR YEAR 2014

The Board of Directors has adopted GASB 68. As a result the beginning net assets for calendar year ended December 31, 2014 was restated due to this pension information becoming available from County Employee's Retirement System for the first time. This information allowed the Commission the ability to record the accrued pension liability and better reflect the overall cost of the pension program. The cumulative effect of this change is adjusted against 2014 net assets as follows:

NOTE 10 – RESTATEMENT OF BEGINNING NET ASSETS RELATED TO CALENDAR YEAR 2014 (continued)

Net Assets – December 31, 2014, prior to restatement	$ 3,562,769
Pension Liability Adjustment	(216,000)
Net Assets – December 31, 2014 (Restated)	$ 3,346,769

NOTE 11 -- RISK MANAGEMENT

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

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 1, 2016.

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 opinions 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 over financial reporting.

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 over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audit, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audit, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated June 1, 2016.

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.

H & A PSC

Harrod & Associates, PSC
Frankfort, KY 40601

June 1, 2016

2016 Audit

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

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Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2016 and 2015, and the related notes to the 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 of material misstatement.

An audit includes 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Farmdale Water District as of December 31, 2016 and 2015, and the respective changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2017 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.

Harrod & Associates, PSC

Harrod & Associates, PSC
Frankfort, KY 40601

May 31, 2017
cys: 4

FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2016 & 2015

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May, 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013.

Financial Highlights

In 2016, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,108,032. Of this amount $2,015,815 was invested in Capital Assets, net of $29,700 restricted for debt retirement, and $1,062,517 was unrestricted. In 2016, the Board's net assets decreased ($131,971), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

In 2015, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,240,003. Of this amount $2,233,894 was invested in Capital Assets, net of $19,800 restricted for debt retirement, and $986,309 was unrestricted. In 2015, the Board's net assets decreased ($106,766), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

Revenues

Gross income from the sale of water, including tap on fees and reconnect fees totaled $1,203,810 and $1,225,181 for the calendar years 2016 and 2015, respectively. The Kentucky Public Service Commission (PSC) approved one rate increase in 2016 and two in 2015, all of these requests were in response to increases in the cost of water purchased from the Frankfort Plant Board. The rate increase in 2016 was effective in December, while in 2015, one of these increases was effective in January 2015 and the other in October 2015.

Expenses
Operating expenses were $1,378,739 and $1,383,147 for the calendar years 2016 and 2015, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased", "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses" and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,600 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of two components:

>Financial Statements
>Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in

Financial Overview (continued)

some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2016 and 2015 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 33 of this report.

Statement of Net Position Overview

The District was not required to have an audit under A-133 for 2016 or 2015.

Statement of Net Position	2016	2015	Change	% Change
Capital Assets	3,873,816	4,091,895	(218,079)	(5.33%)
Current and Other Asets	1,543,416	1,434,758	108,658	7.57%
Other Assets	61,301	54,054	7,247	13.41%
Total Assets	5,478,533	5,580,707	(102,174)	(1.83%)
Long-term Liabilities	1,793,000	1,815,500	(22,500)	(1.24%)
Other Liabilities	577,501	525,204	52,297	9.96%
Total Liabilities	2,370,501	2,340,704	29,797	1.27%
Net Position:				
Invested in Capital Assets	2,015,815	2,233,894	(218,079)	(9.76%)
Restricted	29,700	19,800	9,900	0.50%
Unrestricted	1,062,517	986,309	76,208	7.73%
Total Net Position	3,108,032	3,240,003	(131,971)	(4.07%)

Financial Overview (continued)

Statement of Net Position Overview (continued)
The District was not required to have an audit under A-133 for 2015 or 2014.

Statement of Net Position	2015	2014	Change	% Change
Capital Assets	4,091,895	4,230,460	(138,565)	(3.27%)
Current and other assets	1,434,758	1,440,179	(5,421)	(0.38%)
Other Assets	54,054	17,000	37,054	217.96%
Total Assets	5,580,707	5,687,639	(106,932)	(1.88%)
Long-term Liabilities	1,815,500	1,837,000	(21,500)	(1.13%)
Other Liabilities	525,704	503,870	21,834	4.33%
Total Liabilities	2,341,204	2,340,870	334	0.01%
Net Position:				
Invested in Capital Assets	2,233,894	2,372,460	(138,566)	(5.84%)
Restricted	19,800	- 0 -	19,800	0.00%
Unrestricted	986,309	974,309	12,000	1.23%
Total Net Position	3,240,003	3,346,769	(106,766)	(3.19%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev. Exp. and Changes in Net Position	2016	2015	Change	% Change
Operating Revenues	1,203,810	1,225,181	(21,371)	(1.74%)
Operating Expenses	1,378,739	1,383,147	(4,408)	(.32%)
Operating Income/(Loss)	(174,929)	(157,966)	(16,963)	(10.74%)
Net Non-Operating Income	42,958	51,200	(8,242)	(16.10%)
Change in Net Position	(131,971)	(106,766)	(25,205)	(23.61%)

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

Statement of Rev. Exp. and Changes in Net Position	2015	2014	Change	% Change
Operating Revenues	1,225,181	992,251	232,930	23.47%
Operating Expenses	1,383,147	1,256,660	126,487	10.07%
Operating Income/(Loss)	(157,966)	(264,409)	106,443	40.26%
Net Non-Operating Income	51,200	24,541	26,659	108.64%
Change in Net Position	(106,766)	(239,868)	133,102	55.49%

Assets
In 2016, the District's total assets decreased $102,174 from FY 2015. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

In 2015, the District's total assets decreased $106,932 from FY 2014. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decrease was in "Certificates of Deposits" used to meet normal operating expenses.

Liabilities
In 2016, the District's total liabilities increased $29,797 from FY 2015. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". Accounts Payable increased $35,128 which explains the increase.

In 2015, the District's total liabilities increased $334 from FY 2014. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". The principle payments on the loan from the U.S. Department of Agriculture began in 2015, as indicated by the "Current Portion of Noncurrent Liabilities".

Net Assets
The District's assets exceeded its liabilities by $3,108,032 and $3,240,003 for fiscal years ended December 31, 2016 and 2015, respectively. This represents a decrease from fiscal year 2015 to 2016 of ($131,971) and 2014 to 2015 of ($106,766). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

Net Assets (continued)
cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets
The District's investments in capital assets as of December 31, 2016, 2015 and 2014 amounted to $3,873,816, $4,091,895, and $4,230,460 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included:

The District, through self funding, grants from Kentucky Infrastructure Authority and loans from the U.S. Department of Agriculture completed the following improvements to their system in 2013:

- Upgrades to the water line and pump station;
- Built a 500,000 gallon elevated water storage tank;
- Installed a Supervisory Control and Data Acquisition System which controls and monitors the pump stations and tanks; and
- Installed an automated meter reading system which will allow the District to read meters via radio waves.

Debt Administration

Long-Term Debt

The District has entered into an agreement with the U. S. Department of Agriculture to borrow \$1,668,000 and a subsequent \$190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The repayment of principle began with a \$21,000 principal payment in January 2015 and \$21,500 in January 2016. The loan is a 40 year loan at 3.125% interest payable semi-annually.

Budget

Budget

KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

The District, in 2013, completed a project which updated their water lines, storage capacity, and monitoring capability of much of their system.

Administrative and General

The District continues to experience an increase in health care expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future.

The District lost two employees in 2015 but did hire one replacement in September 2015. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary.

The District has experienced changes in the employer contribution rate to CERS for employee pension. The District contributed 18.68% of employees' gross compensation to the plan from July – December and 17.06% from January - June for the year ended December 31, 2016 and 17.67% for July – December and 17.06% from January - June during the year ended December 31, 2015. These rates are expected to continue to fluxuate with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Future (continued)

Overall
The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water loss was still at a very high rate averaging approximately 39.2% of purchased water throughout the year. Leaks in the old part of the system were the main source of these substantial losses. Management has taken action to find and repair leaks and the percentage loss dropped through the end of 2016. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016 & 2015

ASSETS & DEFERRED OUTFLOWS

CURRENT ASSETS	2016	2015
Cash and Cash Equivalents (Note 1)	$ 468,299	$ 325,688
Cash - Debt Reserve (Note 1)	29,700	19,800
Certificates of Deposit (Note 1)	922,352	959,489
Accounts Receivable (Note 1)	94,530	104,588
Inventory (Note 1)	14,014	12,649
Accrued Interest Receivable	611	641
Prepaid Expenses	13,910	11,903
TOTAL CURRENT ASSETS	1,543,416	1,434,758
CAPITAL ASSETS (Note 3)		
Land & Buildings	55,431	55,431
Equipment	150,609	150,609
Vehicles	37,713	51,568
Water Lines, Hydrants, Towers, & Meters	6,010,029	5,999,541
Accumulated Depreciation	(2,379,966)	(2,165,254)
TOTAL CAPITAL ASSETS	3,873,816	4,091,895
DEFERRED OUTFLOWS (Note 4)		
Contributions Subsequent to Measurement Date	61,301	54,054
TOTAL DEFERRED OUTFLOWS	61,301	54,054
TOTAL ASSETS	$ 5,478,533	$ 5,580,707

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016 & 2015

LIABILITIES & DEFERRED INFLOWS

CURRENT LIABILITIES	2016	2015
Accounts Payable	$ 177,738	$ 142,610
Customer Deposits	39,965	37,315
Customer Deposits - Accrued Interest (Note 6)	3,431	3,550
Accrued Sales Tax	600	599
Accrued School Tax	2,362	2,408
Accrued Payroll Tax	5,625	4,840
Accrued Pension Expense (Note 4)	2,652	2,116
Accrued Loan Interest Payable (Note 9).	28,367	28,703
Current Portion of Noncurrent Liabilities (Note 9)	22,500	21,500
Unearned Income	6,820	11,510
TOTAL CURRENT LIABILITIES	290,060	255,151
NONCURRENT LIABILITIES		
U.S. Department of Agriculture (Note 9)	1,815,500	1,837,000
Current Portion of Noncurrent Liabilities	(22,500)	(21,500)
Net Pension Liability (Note 4)	261,970	257,923
TOTAL NONCURRENT LIABILITIES	2,054,970	2,073,423
DEFERRED INFLOWS (from pension activity)		
Net Difference Between Projected Actual Earnings on Pension Plan Investments	25,471	12,130
TOTAL DEFERRED INFLOWS	25,471	12,130
TOTAL LIABILITIES	2,370,501	2,340,704

NET POSITION

Invested in Capital Assets, net of related debt	2,015,815	2,233,894
Restricted Net Assets	29,700	19,800
Unrestricted Net Assets, as Adjusted (Note 10)	1,062,517	986,309
TOTAL NET POSITION	3,108,032	3,240,003
TOTAL LIABILITIES AND NET POSITION	$ 5,478,533	$ 5,580,707

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

OPERATING REVENUES	2016	2015
User Fees:		
Water - Residential	$ 913,105	$ 905,489
Water - Commercial	143,738	142,334
Sewer Surcharge Fees	85,183	83,806
Tap-on Fees	11,320	5,660
Late Payment Penalty Income	39,648	39,433
Reconnect Fees	10,516	11,014
Gain on Sale of Fixed Assets	300	-
Reimbursement Income	-	37,445
TOTAL OPERATING REVENUES	1,203,810	1,225,181
OPERATING EXPENSES		
Water Purchased	638,514	656,163
Pumping Electricity	22,012	21,110
Payroll	161,301	172,041
Payroll Taxes	12,996	14,021
Employee Benefits	28,398	29,216
Retirement Benefits (Note 4)	31,793	24,111
Transmission and Distribution Expense	68,018	34,243
Administrative and General Expense	60,064	62,607
Interest Paid on Loans	56,734	57,406
Other Interest Expense	139	41
Water Testing	4,280	5,714
Maintenance & Repairs	5,357	17,813
Insurance & Workers' Comp	21,924	22,802
Taxes & Licenses	35,663	34,189
Bad Debts (Note 1)	2,979	7,011
Depreciation (Note 3)	228,567	224,659
TOTAL OPERATING EXPENSES	1,378,739	1,383,147
Operating Income	(174,929)	(157,966)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

NONOPERATING REVENUES (EXPENSES)	2016	2015
Sewer Fees Collected	523,346	518,055
Sewer Fees Paid	(482,707)	(474,900)
Interest Income	1,851	2,076
Other Income	468	5,969
TOTAL NONOPERATING REVENUES (EXPENSES)	42,958	51,200
Change in Net Position	(131,971)	(106,766)
Net Position - Beginning of Year	3,240,003	3,346,769
Net Position - End of Year	$ 3,108,032	$ 3,240,003

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

	2016	2015
Cash Flow from Operating Activities		
Cash received from users and customers	$ 1,198,339	$ 1,202,460
Cash payments to employees for services & benefits	(224,347)	(215,278)
Cash payments to suppliers of goods and services	(838,113)	(840,096)
Net Cash Provided (Used) by Operating Activities	135,879	147,086
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(21,000)	(21,000)
Purchase of equipment	(10,488)	(86,093)
Interest paid on Loans	(57,070)	(57,447)
Net Cash Provided (Used) by Capital & Related Financing Activities	(88,558)	(164,540)
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	523,346	518,055
Other non-operating income	24,015	5,969
Cash paid out from other non-operating expenses	(482,707)	(507,407)
Net Cash Provided (Used) by Noncapital Financing Activities	64,654	16,617
Cash Flows from Investing Activities		
Receipt of Interest	1,882	2,076
Redemption of a Certificates of Deposit	38,654	103,941
Net Cash Provided (Used) by Investing Activities	40,536	106,017
Net Change in Cash and Cash Equivalents	152,511	105,180
Cash and Cash Equivalents, Beginning of Year	345,488	240,308
Cash and Cash Equivalents, End of Year	$ 497,999	$ 345,488
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	$ 75	$ 75
Cash Operations Account	430,434	291,408
Deposit Account	37,790	34,205
Debt Reserve Account	29,700	19,800
	$ 497,999	$ 345,488

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	2016	2015
Operating Income	$ (174,929)	$ (157,966)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	228,567	224,659
Bad Debts	2,979	7,011
Change in assets and liabilities		
Certificates of deposit	37,137	102,435
Accounts receivable	10,058	3,485
Inventory	(1,365)	1,654
Accrued interest receivable	30	(201)
Prepaid expenses	(2,007)	3,228
Accounts payable	35,128	(5,619)
Accrued payroll taxes payable	785	116
Customer deposits	2,650	(2,000)
Customer deposits - accrued interest	(119)	(1,736)
Accrued sales tax	1	13
Accrued school tax	(46)	(144)
Accrued pension expense	536	(701)
Unearned income	(4,690)	(5,820)
Accrued loan interest payable	(336)	(328)
USDA Loan Payable	1,500	(21,000)
Net Cash Provided by Operating Activities	$ 135,879	$ 147,086

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 & 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Operating revenues relate to the District's primary function of the collection of water sales. Non-operating revenues relate to all other revenue.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, 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 revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net asset use through external 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 – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District writes off accounts deemed uncollectible resulting from the customer's failure to pay. The amount written-off for the years ended December 31, 2016 and 2015 totaled $2,979 and $7,011, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District may turn off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000. The District paid $21,500 and $21,000 in principle during calendar years ended December 31, 2016 & 2015, respectively and the loan balance was $1,815,500 and $1,837,000 at December 31, 2016 & 2015, respectively.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Commission's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2016 and 2015. See Note 4 for full disclosure of activity.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of $250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was $497,999 and $345,488 for the years ended December 31, 2016 and 2015, respectively. The carrying amount of the District's certificates of deposit was $922,352 and $959,489 for the years ended December 31, 2016 and 2015, respectively. The bank balances and certificates of deposit are covered by $250,000 of FDIC insurance. At various times throughout the year and at year-end, this $250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT (continued)

Bank Balances and Certificates of Deposit at December 31, 2016, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Book Value
Unrestricted					
Bank Balances	$ 468,299	$ -	$ -	$ 468,299	$ 468,299
Restrict Bank Balance	29,700	-	-	29,700	29,700
Certificates of Deposit	922,352	-	-	-	922,352
Total	$ 1,420,351	$ -	$ -	$ 497,999	$ 1,420,351

Bank Balances and Certificates of Deposit at December 31, 2015, categorized by level of risk are:

	Risk Category 1	2	3	Bank Balances	Book Value
Unrestricted					
Bank Balances	$ 325,688	$ -	$ -	$ 325,688	$ 325,688
Restrict Bank Balance	19,800	-	-	19,800	19,800
Certificates of Deposit	959,489	$ -	-	-	959,489
Total	$ 1,304,977	-	-	$ 345,488	$ 1,304,977

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT (continued)

The following represents the activity for the year ended December 31, 2016:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 51,568	$ 5,999,541	$6,257,149
Deletions	-0-	-0-	(13,855)	-0-	(13,855)
Additions	- 0-	-0-	-0-	10,488	10,488
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,010,029	$ 6,253,782

The following represents the activity for the year ended December 31, 2015:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 47,491	$ 143,676	$ 29,462	$ 5,950,426	$6,171,055
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	7,940	6,933	22,106	49,115	86,094
Ending	$ 55,431	$ 150,609	$ 51,568	$ 5,999,541	$ 6,257,149

A summary of property and equipment and depreciation for the years ended December 31, 2016 and 2015 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2016	Property & Equipment	$6,253,782	$ 228,567	$ 2,379,966
FY 2015	Property & Equipment	$6,257,149	$ 224,659	$ 2,165,254

Land valued at $4,806 is not being depreciated.

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

Employees covered by benefit terms: At the measurement date of June 30, 2016 and 2015:

Estimated Inactive employees or beneficiaries currently receiving benefits	1
Estimated Inactive employees or beneficiaries not currently receiving benefits	1
Active employees	3
Total	5

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were $31,793 and $24,111 for the year ended December 31, 2016 and 2015, respectively. The District contributed 18.68% of employees' gross compensation to the plan from July – December and 17.06% from January - June for the year ended December 31, 2016 and 17.67% for July – December and 17.06% from January - June during the year ended December 31, 2015. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

Actuarial Assumptions:

The total pension liability as of June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent for June 30, 2016 and June 30, 2015.
Salary increases	Representative values of the assumed annual rates of future salary increases from 4.0% average for June 30, 2016 and June 30, 2015 including inflation.
Investment rate of return	7.50% per annum @ June 30, 2016 and June 30, 2015 net of pension plan investment expense, including inflation.

NOTE 4- EMPLOYEE RETIREMENT (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 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 actuarial assumptions used in the June 30, 2016 and June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2015. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. 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 (see chart below). 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 assumptions are intended to be long-term assumptions and are 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 long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50% for June 30, 2016 and June 30, 2015 based on a blending of the factors described below:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
Domestic Equity	8.45%	30.00%
International Equity	8.85%	22.00%
Emerging Market Equity	10.50%	5.00%
Private Equity	11.25%	7 .00%
Real Estate	7.00%	5.00%
Core US Fixed Income	5.25%	10.00%
High Yield US Fixed Income	7.25%	5.00%
Non US Fixed Income	5.50%	5.00%
Commodities	7.75%	5.00%
TIPS	5.00%	5.00%
Cash	3.25%	1.00%
		100.00%

Discount Rate:

The discount rate used to measure the total pension liability was 7.50% for June 30, 2016 and June 30, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.50 percent for June 30, 2016, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District net pension liability - 2016	$ 296,899	$ 261,970	$ 227,041

NOTE 4 - EMPLOYEE RETIREMENT (continued)

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.50 percent for June 30, 2015, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District net pension liability - 2015	$ 292,312	$ 257,923	$ 223,534

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

For the year ended December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

The amount shown below for "Contributions Subsequent to the Measurement Date of June 30," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

	12/31/16	12/31/15	Total
Net Difference Between Projected Actual Earnings on Pension Plan Investments	$ (25,471)	$ (12,130)	$ (37,601)
Contributions Subsequent to the Measurement Date of June 30	$ 61,301	$ 54,054	$ 115,355

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments related to pensions will be recognized in pension expense as follows:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Year Ended June 30:

2017	$	(3,033)
2018		(3,033)
2019		(3,032)
	$	(9,098)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2016, the District contributed 17.06% from January – June and 18.68% thereafter. In 2015, the District contributed 17.67% from January - June and 17.06% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan $2,652 and $2,116 at December 31, 2016 and 2015, respectively.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2015, determined as of July 1, 2013. 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:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, closed
Remaining Amortization Period	28 Years for June 30, 2016 and 30 Years for June 30, 2015
Asset Valuation Method	5-Year Smoothed Market
Inflation	3.25 Percent for June 30, 2016 & June 30, 2015
Salary Increase	4.0 Percent Average for June 30, 2016 and June 30, 2015, Including Inflation
Investment Rate of Return	7.50 Percent for June 30, 2016 and for June 30, 2015, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age

NOTE 4 - EMPLOYEE RETIREMENT (continued)

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 - WATER STORAGE TANK PROJECT

The District was awarded a combination of state and federal funds to build a new storage tank and water lines for a portion of their service area. The District began the construction phase in the summer of 2012 and completed the project in November 2013. The District estimated a cost of $3.39 million; the final cost was approximately $3.53 million. The funding for this project included a $1.858 million loan from the federal government Department of Agriculture, over $1.22 million in Kentucky Infrastructure Grants and $500,000 in District funds. No federal funds were spent in the year ended December 31, 2016.

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%. The estimated accrued interest on these deposits at December 31, 2016 & 2015 was $3,431 and $3,550, respectively.

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2016 and 2015 by $11,320 and $5,660, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855-10-50-1 "Subsequent Events". The Organization evaluated events occurring between the end of its most recent year end and this report date. Management believes no significant events occurred subsequent to the date of this report which is the date the financial statements were available to be issued, except effective July 1, 2017 the District will collect $3 for billing sewer bills instead of 15% of the total bill. The effect of this change is not known.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principle payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit $750 per month for the original loan and $75 per month for the subsequent loan until such time the account reaches $98,500. Management has opened this account and had a balance of $29,700 at December 31, 2016 and $19,800 at December 31, 2015.

The District paid $21,500 of principle on January 1, 2016 and $21,000 of principle on the loan on January 1, 2015. In addition another $22,500 in principle is due on January 1, 2017. Total interest paid on this loan was $56,734 and $57,406 for December 31, 2016 and 2015, respectively.

The District's long-term debt at December 31, 2016 is detailed as follows:

	Principal Balance 12/31/15	Borrowings	Payments	Principal Balance 12/31/16	Current Portion	Long-Term Portion
USDA Loan	$1,837,000	-0-	$ 21,500	$ 1,815,500	$ 22,500	$ 1,793,000

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 & 2015

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The District's long-term debt at December 31, 2015 is detailed as follows:

	Principal Balance 12/31/14	Borrowings	Payments	Principal Balance 12/31/15	Current Portion	Long-Term Portion
USDA Loan	$1,858,000	-0-	$ 21,000	$ 1,837,000	$ 21,500	$ 1,815,500

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2017	22,500	56,031	78,531
2018	24,000	55,281	79,281
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021	26,500	52,891	79,391
2022 - 2026	150,500	250,734	401,234
2027 – 2031	185,000	224,063	409,063
2032 - 2036	226,500	191,375	417,875
2037 – 2041	278,500	151,203	429,703
2042 – 2046	340,500	102,062	442,562
2047 – 2051	418,000	41,750	459,750
2052	93,500	- 0 -	93,500
Total	$ 1,815,500	$ 1,233,625	$3,049,125

NOTE 10 – RISK MANAGEMENT

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

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 31, 2017.

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 opinions 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 over financial reporting.

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 over financial reporting 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audit, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audit, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated May 31, 2017.

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.

Harrod & Associates, PSC
Frankfort, KY 40601

May 31, 2017

REQUIRED SUPPLEMENTAL INFORMATION

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601
REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2016 & 2015

SCHEDULE OF FARMDALE WATER DISTRICT NET PENSION LIABILITY AND RELATED RATIOS BASED ON PARTICIPATION IN THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS

	2016	2015
Total Net Pension Liability for County Employees Retirement System (in thousands)	$4,299,525	$3,244,377
Employer's Proportion (Percentage) of Net Pension Liability	.00532%	.00600%
Employer's Proportion (Amount) of Net Pension Liability	$ 261,970	$ 257,923
Employer's Covered-Employer Payroll	$ 120,993	$ 138,847
Employer's Proportionate Share (Amount) of the Net Pension Liability as A Percentage of Employer's Covered-Employer Payroll	216.52%	185.76%
Total Pension Plan's Fiduciary Net Position (in thousands)	$ 6,440,800	$ 6,528,146
Total Pension Plan's Pension Liability (in thousands)	$10,740,325	$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	59.97%	66.80%

SCHEDULE OF FARMDALE WATER DISTRICT CONTRIBUTIONS BASED ON PARTICIPATION IN THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS

	2016	2015
Actuarially Determined Contribution	$ 15,116	$54,050
Contributions in Relation to the Actuarially Determined Contribution	26,755	31,828
Contribution Deficiency (Excess)	$(11,639)	$ 22,222
Covered-Employee Payroll	$120,993	$138,847
Contributions as a Percentage of Covered-Employee Payroll	22.11%	27.96%

NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS INFORMATION

Valuation Date: Actuarially determined contribution rates for 2016 were calculated based on June 30, 2015 actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 Years
Asset Valuation	5-Year Smoothed Market
Inflation	3.25 Percent
Salary Increases	4.00%
Investment Rate of Return	7.5 Percent, Net of Investment Expense, Including Inflation
Retirement Age	65 Years or 27 Years of Service Regardless of Age

2017 Audit

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

HARROD & ASSOCIATES, P.S.C.

Certified Public Accountants

FRANKFORT, KENTUCKY 40601

CONTENTS

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Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Farmdale Water Districts 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Farmdale Water District as of December 31, 2017 and 2016, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, the Schedule of the Districts Proportionate Share of the CERS Net Pension Liability on page 39 and Schedule of Contributions to CERS on page 40 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 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 solely 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 the effectiveness of the Districts 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.

Harrod & Associates, PSC
Frankfort, KY 40601

May 29, 2018
cys: 4

FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2017 & 2016

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May, 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013. In addition, beginning in August of 2017 the District installed two master meters in order to detect water leaks and manage the water loss the District has been experiencing.

Financial Highlights

In 2017, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,929,535. Of this amount $1,825,836 was invested in Capital Assets, $39,600 restricted for debt retirement, and $1,064,099 was unrestricted. In 2017, the Board's net assets decreased ($178,497), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

In 2016, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,108,032. Of this amount $2,015,815 was invested in Capital Assets, $29,700 restricted for debt retirement, and $1,062,517 was unrestricted. In 2016, the Board's net assets decreased ($131,971), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

Revenues

Gross income from the sale of water, including tap on fees and reconnect fees totaled $1,231,246 and $1,203,810 for the calendar years 2017 and 2016 respectively. The Kentucky Public Service Commission (PSC) approved one rate increase each in 2017 and 2016, all of these requests were in response to increases in the cost of water purchased from the Frankfort Plant Board. The rate increase in 2017 was effective in November, while in 2016, the increase was effective in December.

Expenses
Operating expenses were $1,457,552 and $1,378,739 for the calendar years 2017 and 2016, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased", "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses" and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,650 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of two components:

>Financial Statements
>Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in

Financial Overview (continued)

some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2017 and 2016 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 35 of this report.

Statement of Net Position Overview
The District was not required to have an audit under A-133 for 2017 or 2016.

Statement of Net Position	2017	2016	Change	% Change
Capital Assets	3,684,320	3,873,816	(189,496)	(4.89%)
Current and Other Assets	1,555,878	1,543,416	12,462	0.81%
Other Assets	88,849	61,301	27,548	44.94%
Total Assets	5,329,047	5,478,533	(149,486)	(2.73%)
Long-term Liabilities	1,769,000	1,793,000	(24,000)	(1.34%)
Other Liabilities	630,512	577,501	53,011	9.18%
Total Liabilities	2,399,512	2,370,501	29,011	1.22%
Net Position:				
Invested in Capital Assets	1,826,318	2,015,815	(189,497)	(9.40%)
Restricted	39,600	29,700	9,900	33.33%
Unrestricted	1,063,617	1,062,517	1,100	.10%
Total Net Position	2,929,535	3,108,032	(178,497)	(5.74%)

Financial Overview (continued)

Statement of Net Position Overview (continued)
The District was not required to have an audit under A-133 for 2016 or 2015.

Statement of Net Position	2016	2015	Change	% Change
Capital Assets	3,873,816	4,091,895	(218,079)	(5.33%)
Current and other assets	1,543,416	1,434,758	108,658	7.57%
Other Assets	61,301	54,054	7,247	13.41%
Total Assets	5,478,533	5,580,707	(102,174)	(1.83%)
Long-term Liabilities	1,793,000	1,815,500	(22,500)	(1.24%)
Other Liabilities	577,501	525,704	52,297	9.96%
Total Liabilities	2,370,501	2,340,704	29,797	1.27%
Net Position:				
Invested in Capital Assets	2,015,815	2,233,894	(218,079)	(9.76%)
Restricted	29,700	19,800	9,800	0.50%
Unrestricted	1,062,517	986,309	76,208	7.73%
Total Net Position	3,108,032	3,240,003	(131,971)	(4.07%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev. Exp. and Changes in Net Position	2017	2016	Change	% Change
Operating Revenues	1,231,246	1,203,810	27,436	2.28%
Operating Expenses	1,457,552	1,378,739	78,813	5.72%
Operating Income/(Loss)	(226,306)	(174,929)	(51,377)	(29.37%)
Net Non-Operating Income	47,809	42,958	4,851	11.29%
Change in Net Position	(178,497)	(131,971)	(46,526)	(35.25%)

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

Statement of Rev. Exp. and Changes in Net Position	2016	2015	Change	% Change
Operating Revenues	1,203,810	1,225,181	(21,371)	(1.74%)
Operating Expenses	1,378,739	1,383,147	(4,408)	(.32%)
Operating Income/(Loss)	(174,929)	(157,966)	(16,963)	(10.74%)
Net Non-Operating Income	42,958	51,200	(8,242)	(16.10%)
Change in Net Position	(131,971)	(106,766)	(25,205)	(23.61%)

Assets

In 2017, the District's total assets decreased $149,486 from FY 2016. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Cash" used to meet normal operating expenses.

In 2016, the District's total assets decreased $102,174 from FY 2015. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

Liabilities

In 2017, the District's total liabilities increased $29,011 from FY 2016. The Audit Report indicates the major changes were in "Net Pension Liability" and "Deferred Inflows". Net Pension Liability increased $57,328 which explains the increase.

In 2016, the District's total liabilities increased $29,797 from FY 2015. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". Accounts Payable increased $35,128 which explains the increase.

Net Assets

The District's assets exceeded its liabilities by $2,929,535 and $3,108,032 for fiscal years ended December 31, 2017 and 2016, respectively. This represents a decrease from fiscal year 2016 to 2017 of ($178,497) and 2015 to 2016 of ($131,971). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

Net Assets (continued)
cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets
The District's investments in capital assets as of December 31, 2017, 2016 and 2015 amounted to $3,684,320, $3,873,816, and $4,091,895 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included:

The District, through self funding, grants from Kentucky Infrastructure Authority and loans from the U.S. Department of Agriculture completed the following improvements to their system in 2013:

- Upgrades to the water line and pump station;
- Built a 500,000 gallon elevated water storage tank;
- Installed a Supervisory Control and Data Acquisition System which controls and monitors the pump stations and tanks; and
- Installed an automated meter reading system which will allow the District to read meters via radio waves.

Debt Administration

Long-Term Debt
The District has entered into an agreement with the U. S. Department of Agriculture to borrow $1,668,000 and a subsequent $190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The District repaid principle of $22,500 principal payment in January 2017 and $21,500 in January 2016. The loan is a 40 year loan at 3.125% interest payable semi-annually.

Budget

Budget
KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water
The District, in 2017, installed completed a project which updated their ability to track water usage and loses for much of their system.

Administrative and General
The District continues to experience an increase in health care expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future.

The District currently had four full-time employees in 2016 and 2017. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary.

The District has experienced changes in the employer contribution rate to CERS for employee pension. The District contributed 19.18% of employees' gross compensation to the plan from July – December and 18.68% from January - June for the year ended December 31, 2017 and 18.68% for July – December and 17.67% from January - June during the year ended December 31, 2016. These rates are expected to continue to fluxuate with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Kentucky Retirement System Board of Trustees had originally set the contribution rate effective July 1, 2018 at 28.05%, however, with the passage of House Bill 362, the rate increases were limited to 12% per fiscal year. The rate for July 1, 2018 through June 30, 2019 is 21.48%.

The Future (continued)

Overall

The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water loss was still at a very high rate averaging approximately 35.9% of purchased water throughout the year. Leaks in the old part of the system were the main source of these substantial losses. Management has taken action to find and repair leaks and the percentage loss dropped through the end of 2017. In fact, in March 2018 the District discovered a leak underneath U.S. 127 South which was losing approximately 150,000 gallons per day, this discovery should significantly reduce their water loss. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017 & 2016

ASSETS

CURRENT ASSETS	2017	2016
Cash and Cash Equivalents (Note 1)	$ 462,426	$ 468,299
Cash - Debt Reserve (Note 9)	39,600	29,700
Certificates of Deposit (Note 1)	923,732	922,352
Accounts Receivable (Note 1)	96,036	94,530
Inventory (Note 1)	18,621	14,014
Accrued Interest Receivable	988	611
Prepaid Expenses	14,475	13,910
TOTAL CURRENT ASSETS	1,555,878	1,543,416
CAPITAL ASSETS (Note 3)		
Land & Buildings	55,431	55,431
Equipment	150,609	150,609
Vehicles	37,713	37,713
Water Lines, Hydrants, Towers, & Meters	6,048,617	6,010,029
Accumulated Depreciation	(2,608,050)	(2,379,966)
TOTAL CAPITAL ASSETS	3,684,320	3,873,816
DEFERRED OUTFLOWS (Note 4)		
Contributions Subsequent to Measurement Date	88,849	61,301
TOTAL DEFERRED OUTFLOWS	88,849	61,301
TOTAL ASSETS	$ 5,329,047	$ 5,478,533

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017 & 2016

LIABILITIES

CURRENT LIABILITIES	2017	2016
Accounts Payable	$ 160,984	$ 177,738
Customer Deposits	34,805	39,965
Customer Deposits - Accrued Interest (Note 6)	1,052	3,431
Accrued Sales Tax	545	600
Accrued School Tax	2,472	2,362
Accrued Payroll Tax	6,001	5,625
Accrued Pension Expense (Note 4)	3,258	2,652
Accrued Loan Interest Payable (Note 9).	28,016	28,367
Current Portion of Noncurrent Liabilities (Note 9)	24,000	22,500
Unearned Income	7,538	6,820
TOTAL CURRENT LIABILITIES	268,671	290,060
NONCURRENT LIABILITIES		
U.S. Department of Agriculture (Note 9)	1,793,000	1,815,500
Current Portion of Noncurrent Liabilities	(24,000)	(22,500)
Net Pension Liability (Note 4)	319,298	261,970
TOTAL NONCURRENT LIABILITIES	2,088,298	2,054,970
DEFERRED INFLOWS (from pension activity)		
Net Difference Between Projected Actual Earnings on Pension Plan Investments	42,543	25,471
TOTAL DEFERRED INFLOWS	42,543	25,471
TOTAL LIABILITIES	2,399,512	2,370,501

NET POSITION

	2017	2016
Invested in Capital Assets, net of related debt	1,826,318	2,015,815
Restricted Net Assets	39,600	29,700
Unrestricted Net Assets, as Adjusted (Note 10)	1,063,617	1,062,517
TOTAL NET POSITION	2,929,535	3,108,032
TOTAL LIABILITIES AND NET POSITION	$ 5,329,047	$ 5,478,533

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

OPERATING REVENUES	2017	2016
User Fees:		
Water - Residential	$ 943,931	$ 913,105
Water - Commercial	147,321	143,738
Sewer Surcharge Fees	83,500	85,183
Tap-on Fees	9,462	11,320
Late Payment Penalty Income	37,860	39,648
Reconnect Fees	9,172	10,516
Gain on Sale of Fixed Assets	-	300
TOTAL OPERATING REVENUES	1,231,246	1,203,810
OPERATING EXPENSES		
Water Purchased	655,527	638,514
Pumping Electricity	22,469	22,012
Payroll	163,007	161,301
Payroll Taxes	13,644	12,996
Employee Benefits	32,636	28,398
Retirement Benefits (Note 4)	72,322	31,793
Transmission and Distribution Expense	42,364	68,018
Administrative and General Expense	62,954	60,064
Interest Paid on Loans	56,031	56,734
Other Interest Expense	195	139
Water Testing	5,026	4,280
Maintenance & Repairs	43,441	5,357
Insurance & Workers' Comp	21,124	21,924
Taxes & Licenses	36,521	35,663
Bad Debts (Note 1)	2,206	2,979
Depreciation (Note 3)	228,085	228,567
TOTAL OPERATING EXPENSES	1,457,552	1,378,739
Operating Income	(226,306)	(174,929)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

NONOPERATING REVENUES (EXPENSES)	2017	2016
Sewer Fees Collected	552,537	523,346
Sewer Fees Paid	(508,193)	(482,707)
Interest Income	2,269	1,851
Other Income	1,196	468
TOTAL NONOPERATING REVENUES (EXPENSES)	47,809	42,958
Change in Net Position	(178,497)	(131,971)
Net Position - Beginning of Year	3,108,032	3,240,003
Net Position - End of Year	$ 2,929,535	$ 3,108,032

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

	2017	2016
Cash Flow from Operating Activities		
Cash received from users and customers	$ 1,220,442	$ 1,198,339
Cash payments to employees for services & benefits	(237,391)	(224,347)
Cash payments to suppliers of goods and services	(964,741)	(838,113)
Net Cash Provided (Used) by Operating Activities	18,310	135,879
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(22,500)	(21,000)
Purchase of equipment	(38,588)	(10,488)
Interest paid on Loans	(56,538)	(57,070)
Net Cash Provided (Used) by Capital & Related Financing Activities	(117,626)	(88,558)
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	552,537	523,346
Other non-operating income	56,731	24,015
Cash paid out from other non-operating expenses	(508,193)	(482,707)
Net Cash Provided (Used) by Noncapital Financing Activities	101,075	64,654
Cash Flows from Investing Activities		
Receipt of Interest	2,268	1,882
Redemption of a Certificates of Deposit	-	38,654
Net Cash Provided (Used) by Investing Activities	2,268	40,536
Net Change in Cash and Cash Equivalents	4,027	152,511
Cash and Cash Equivalents, Beginning of Year	497,999	345,488
Cash and Cash Equivalents, End of Year	$ 502,026	$ 497,999
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	$ 75	$ 75
Cash Operations Account	429,470	430,434
Deposit Account	32,881	37,790
Debt Reserve Account	39,600	29,700
	$ 502,026	$ 497,999

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	2017	2016
Operating Income	$ (226,306)	$ (174,929)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	228,085	228,567
Bad Debts	2,206	2,979
Pension Expense	44,219	-
Change in assets and liabilities		
Certificates of deposit	(1,380)	37,137
Accounts receivable	(1,506)	10,058
Inventory	(4,607)	(1,365)
Accrued interest receivable	(377)	30
Prepaid expenses	(565)	(2,007)
Accounts payable	(16,754)	35,128
Accrued payroll taxes payable	376	785
Customer deposits	(5,160)	2,650
Customer deposits - accrued interest	(2,379)	(119)
Accrued sales tax	(55)	1
Accrued school tax	110	(46)
Accrued pension expense	536	536
Unearned income	718	(4,690)
Accrued loan interest payable	(351)	(336)
USDA Loan Payable	1,500	1,500
Net Cash Provided by Operating Activities	$ 18,309	$ 135,879

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All of the District's activity is accounted for as business-type activities. Operating revenues relate to the District's primary function of the collection of water sales, likewise, operating expenses include the expenses for the distribution of water to customers. Non-operating revenues and expenses relate to all other revenue and expenses.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, 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 revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net asset use through external 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 – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District does not provide an allowance for uncollectible accounts but rather expenses such items in the period they become uncollectible. This practice differs from generally accepted account principles but its impact is deemed immaterial. The amount written-off for the years ended December 31, 2017 and 2016 totaled $2,206 and $2,979, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District may turn off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000. The District paid $22,500 and $21,500 in principle during calendar years ended December 31, 2017 & 2016, respectively and the loan balance was $1,793,000 and $1,815,000 at December 31, 2017 & 2016, respectively.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Commission's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2017 and 2016. See Note 4 for full disclosure of activity.

L. CASH AND CASH EQUIVALENTS

For business type activities all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. PREPAID EXPENSES

Prepaid expenses include expenditures for the insurance and software maintenance made in connection with future program and activities.

O. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. Currently, the District has only one item that qualifies for reporting in this category, contributions subsequent to measurement date relating to the retirement information.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Currently, the District has only one item that qualifies for reporting in this category, net difference between projected actual earnings on pension plan investment relating to the retirement information.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of $250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was $502,026 and $497,999 for the years ended December 31, 2017 and 2016, respectively. The carrying amount of the District's certificates of deposit was $923,732 and

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT (continued)

$922,352 for the years ended December 31, 2017 and 2016, respectively. The bank balances and certificates of deposit are covered by $250,000 of FDIC insurance. At various times throughout the year and at year-end, this $250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Bank Balances and Certificates of Deposit at December 31, 2017, categorized by level of risk are:

	Risk Category 1	Risk Category 2	Risk Category 3	Bank Balances	Uninsured Uncollater-alized	Book Value
Unrestricted Bank Balances	$ 250,000	$ -	$ -	$ 250,000	$ 212,351	$ 462,351
Restrict Bank Balance	-	-	-	-	39,600	39,600
Certificates of Deposit	726,694	-	-	726,694	197,038	923,732
Total	$ 976,694	$ -	$ -	$ 976,694	$ 448,989	$1,425,683

Bank Balances and Certificates of Deposit at December 31, 2016, categorized by level of risk are:

	Risk Category 1	Risk Category 2	Risk Category 3	Bank Balances	Uninsured Uncollater-alized	Book Value
Unrestricted Bank Balances	$ 250,000	$ -	$ -	$ 250,000	$ 218,299	$ 468,299
Restrict Bank Balance	-	-	-	-	29,700	29,700
Certificates of Deposit	725,826	-	-	725,826	196,526	922,352
Total	$ 975,826	$ -	$ -	$ 975,826	$ 444,525	$1,420,351

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District's threshold for capitalization is $2,500. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

The following represents the activity for the year ended December 31, 2017:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 37,713	$ 6,010,029	$6,253,782
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	- 0-	-0-	-0-	38,588	38,588
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,048,617	$ 6,292,370

The following represents the activity for the year ended December 31, 2016:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 51,568	$ 5,999,541	$6,257,149
Deletions	-0-	-0-	(13,855)	-0-	(13,855)
Additions	- 0-	-0-	-0-	10,488	10,488
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,010,029	$ 6,253,782

A summary of property and equipment and depreciation for the years ended December 31, 2017 and 2016 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2017	Property & Equipment	$6,292,370	$ 228,085	$ 2,608,050
FY 2016	Property & Equipment	$6,253,782	$ 228,567	$ 2,379,966

Land valued at $4,806 is not being depreciated.

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA was granted for the fiscal years ending June 30, 2017 or 2016.

Employees covered by benefit terms: At the measurement date of June 30, 2017 and 2016:

Estimated Inactive employees or beneficiaries currently receiving benefits	1
Estimated Inactive employees or beneficiaries not currently receiving benefits	1
Active employees	4
Total	6

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were $72,322 and $31,793 for the year ended December 31, 2017 and 2016, respectively. The District contributed 19.18% of employees' gross compensation to the plan from July – December and 18.68% from January - June for the year ended December 31, 2017 and 18.68% for July – December and 17.67% from January - June during the year ended December 31, 2016. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

Actuarial Assumptions:

The total pension liability as of June 30, 2017 and 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30% percent for June 30, 2017 and 3.25 percent for June 30, 2016.
Salary increases	Representative values of the assumed annual rates of future salary increases from 3.05% for June 30, 2017 and 4.0% average for June 30, 2016 including inflation.
Investment rate of return	6.25% per annum @ June 30, 2017 and 7.50% per annum @ June 30, 2016 net of pension plan investment expense, including inflation.

NOTE 4- EMPLOYEE RETIREMENT (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 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 actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2015. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The actuarial assumptions used in the June 30, 2017 actuarial valuation was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods and data, as of that date. The roll-forward is based on the results of GRS' replication.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. 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 (see chart below). 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 assumptions are intended to be long-term assumptions

NOTE 4- EMPLOYEE RETIREMENT (continued)

and are 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 long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 6.25% for June 30, 2017 and 7.50% for June 30, 2016 based on a blending of the factors described below:

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
Combined Equity	5.40%	44%
Combined Fixed Income	1.50%	19%
Real Return (Diversified Inflation Strategies	3.50%	10%
Real Estate	4.50%	5%
Absolute Return (Diversified Hedge Funds	4.25%	10%
Private Equity	8.50%	10%
Cash	(.25)%	2%
		100.00%

Discount Rate:

The discount rate used to measure the total pension liability was 6.25% for June 30, 2017 and 7.50% for June 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent for June 30, 2017, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District net pension liability - 2017	$ 402,704	$ 391,298	$ 249,530

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.50 percent for June 30, 2016, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District net pension liability - 2016	$ 296,899	$ 261,970	$ 227,041

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

At December 31, 2017, the District reported a liability of $319,298 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating CERS members, actuarially determined. At June 30, 2017, the District recognized pension expense of $72,322. At December 31, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 4- EMPLOYEE RETIREMENT (continued)

Amounts per audited KRS financial report	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 396	$ (8,105)
Changes in Assumptions	58,919	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	25,288	(21,340)
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	4,246	(13,098)
Measurement Date of June 30	$ 88,849	$ 42,543

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments and Contribution Subsequent to the Measurement Date of June will be recognized in pension expense as follows:

Year Ended June 30:

2018	$ 16,098
2019	22,750
2020	11,560
2021	(4,102)
Total	$ 46,306

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2017, the District contributed 18.68% from January – June and 19.18% thereafter. In 2016, the District contributed 18.68% from January - June and 17.67% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan $3,258 and $2,652 at December 31, 2017 and 2016, respectively.

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended June 30, 2017, determined as of June 30, 2015. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	28 Years for June 30, 2017 and 2016
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized for the year ended June 30, 2017 and a 5-Year Smoothed Market for the year ended June 30, 2016
Inflation	3.25 Percent for June 30, 2017 & June 30, 2016
Salary Increase	4.0 Percent Average for June 30, 2017 and June 30, 2016,
Payroll Growth Rate	4.0%
Investment Rate of Return	7.50 Percent for June 30, 2017 and for June 30, 2016, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	June 30, 2015

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 – OTHER EMPLOYEE BENEFITS

In addition to the pension benefits described in Note 4, the District participates in the Kentucky Retirement Systems Insurance fund (Fund). The Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701 to provide hospital and medical insurance for member receiving benefits from the Kentucky Employees Retirement System (KRS). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase medical insurance.

NOTE 5 – OTHER EMPLOYEE BENEFITS (continued)

The amount of contribution paid by the Fund is based on years of service. For members participating prior to July 1, 2003, the years of service and respective percentages of the maximum contribution were as follows:

Years of Service	Paid by Insurance Fund
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

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 ten years, non-hazardous employees who participating began on or after July 1, 2003 earn ten dollars ($10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

NOTE 6 - CUSTOMER DEPOSITS (continued)

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%.

The estimated accrued interest on these deposits at December 31, 2017 & 2016 was $1,052 and $3,431, respectively.

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2017 and 2016 by $9,462 and $11,320, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855-10-50-1 "Subsequent Events". The Organization evaluated events occurring between the end of its most recent year end and this report date. Management believes no significant events occurred subsequent to the date of this report which is the date the financial statements were available to be issued.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principle payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit $750 per month for the original loan and $75 per month for the subsequent loan until such time the account reaches $98,500. Management has opened this account and had a balance of $39,600 at December 31, 2017 and $29,700 at December 31, 2016.

The District paid $22,500 of principle on January 1, 2017 and $21,500 of principle on the loan on January 1, 2016. In addition another $24,000 in principle is due on January 1, 2018. Total interest expense on this loan was $56,031 and $56,734 for December 31, 2017 and 2016, respectively.

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The District's long-term debt at December 31, 2017 is detailed as follows:

	Principal Balance 12/31/16	Borrowings	Payments	Principal Balance 12/31/17	Current Portion	Long-Term Portion
USDA Loan	$1,815,500	-0-	$ 22,500	$ 1,793,000	$ 24,000	$ 1,769,000

The District's long-term debt at December 31, 2016 is detailed as follows:

	Principal Balance 12/31/15	Borrowings	Payments	Principal Balance 12/31/16	Current Portion	Long-Term Portion
USDA Loan	$1,837,000	-0-	$ 21,500	$ 1,815,500	$ 22,500	$ 1,793,000

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2018	24,000	55,281	79,281
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021	26,500	52,891	79,391
2022	27,500	52,031	79,531
2023 - 2026	123,000	198,703	321,703
2027 – 2031	185,000	224,063	409,063
2032 - 2036	226,500	191,375	417,875
2037 – 2041	278,500	151,203	429,703
2042 – 2046	340,500	102,062	442,562
2047 – 2051	418,000	41,750	459,750
2052	93,500	- 0 -	93,500
Total	$ 1,793,000	$ 1,177,594	$2,970,594

NOTE 10 – RISK MANAGEMENT

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

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 29, 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 opinions 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 over financial reporting.

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 over financial reporting 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 **Preparation of Financial Statements**

Condition – As noted in the prior audits, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audits, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

2017-1 **FDIC Coverage of Deposits and Certificates of Deposit**

Condition – The District does not have internal control procedures designed to ensure that all deposit accounts and certificates of deposits are covered by FDIC insurance. At many times throughout the year the balances exceeded the $250,000 FDIC insurance coverage putting these funds at risk of loss if the bank were to fail.

Criteria – A good system of internal control establishes internal controls which effectively and timely ensure all assets are adequately insured.

Effect – Inadequate controls could result in significant financial loss if the banks were to fail.

Cause – District personnel have not adequately monitored bank balances to ensure all accounts have adequate insurance.

Recommendation – We recommend management review total funds at all banking institutions and move funds as needed to ensure adequate FDIC coverage.

Management Response – Management agrees and will implement the policy immediately.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated May 29, 2018.

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.

Harrod & Associates, PSC
Frankfort, KY 40601

May 29, 2018

REQUIRED SUPPLEMENTAL INFORMATION

FARMDALE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

	2017	2016	2015
Total Net Pension Liability for County Employees Retirement System (in thousands)	$ 5,853,443	$ 4,299,525	$ 3,244,377
Employer's Proportion (Percentage) of Net Pension Liability	0.00546%	0.00532%	0.00600%
Employer's Proportion (Amount) of Net Pension Liability	$ 319,298	$ 261,970	$ 257,923
Employer's Covered-Employer Payroll	$ 148,407	$ 120,993	$ 138,847
Employer's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of Employer's Covered-Employer Payroll	215.60%	216.52%	185.76%
Total Pension Plan's Fiduciary Net Position (in thousands)	$ 6,687,237	$ 644,080	$ 6,528,146
Total Pension Plan's Pension Liability (in thousands)	$ 12,540,545	$ 10,740,325	$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	53.32%	59.97%	66.80%

FARMDALE WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

	2017	2016	2015
Actuarially Determined Contribution	$ 18,528	$ 15,116	$ 54,050
Contributions in Relation to the Actuarially Determined Contribution	28,103	26,755	31,828
Contribution Deficiency (Excess)	(9,575)	(11,639)	22,222
Covered-Employee Payroll	$ 148,407	$ 120,993	$ 138,847
Contributions as a Percentage of Covered-Employee Payroll	18.94%	22.11%	22.92%

2018 Audit

FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

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AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Farmdale Water 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Farmdale Water District as of December 31, 2018 and 2017, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, the Schedule of the District's Proportionate Share of the CERS Net Pension Liability on page 44, the Schedule of Contributions to CERS on page 45, the Schedule of Net OPEB Liability on page 46 and the Schedule of Contributions to CERS Insurance Fund on Page 47 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 this 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2019 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 solely 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 the effectiveness of the District's 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.

Harrod & Associates, PSC
Frankfort, KY 40601

June 10, 2019
cys: 4

FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2018 & 2017

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013. In addition, beginning in August of 2017 the District installed two master meters in order to detect water leaks and manage the water loss the District has been experiencing. In April 2018, the District discovered and repaired a significant water leak which was causing a loss of approximately 150,000 gallons per day.

Financial Highlights

In 2018, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,673,337. Of this amount, $1,981,468 was invested in Capital Assets, $82,493 was restricted for debt retirement, and $609,376 was unrestricted. In 2018, the Board's net assets decreased ($256,198), primarily through Other Post Employment Benefits (OPEB) and pension adjustments, payroll, employee benefits, depreciation and the cost of purchased water.

In 2017, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,929,535. Of this amount, $1,891,320 was invested in Capital Assets, $72,481 was restricted for debt retirement, and $965,734 was unrestricted. In 2017, the Board's net assets decreased ($178,497), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

Revenues

Gross income from the sale of water, including tap on fees and reconnect fees totaled $1,232,487 and $1,231,246 for the calendar years 2018 and 2017, respectively. The Kentucky Public Service Commission (PSC) approved one rate increase each in 2018 and 2017. Both of these requests for increases were in response to increases in the cost of water purchased from the Frankfort Plant Board. The rate increase in 2018 was effective in July, while in 2017, the increase was effective in November.

Expenses

Operating expenses were $1,541,445 and $1,457,552 for the calendar years 2018 and 2017, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Water Purchased", "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses" and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,655 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of two components:

>Financial Statements
>Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

Financial Overview (continued)

2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2018 and 2017 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 40 of this report.

Statement of Net Position Overview

The District was not required to have an audit under Uniform Guidance for 2018 or 2017.

Statement of Net Position	2018	2017	Change	% Change
Capital Assets	3,750,468	3,684,320	66,148	1.79%
Current and Other Assets	1,334,812	1,555,878	(221,066)	(14.21%)
Other Assets	122,479	88,849	33,630	37.85%
Total Assets	5,207,759	5,329,047	(121,288)	(2.28%)
Long-term Liabilities	1,744,500	1,769,000	(24,500)	(1.38%)
Other Liabilities	789,922	630,512	159,410	25.28%
Total Liabilities	2,534,422	2,399,512	134,910	5.62%
Net Position:				
Invested in Capital Assets	1,981,468	1,891,320	90,148	4.77%
Restricted	82,493	72,481	10,012	13.81%
Unrestricted	609,376	965,734	(356,358)	(36.90%)
Total Net Position	2,673,337	2,929,535	(256,198)	(8.74%)

Financial Overview (continued)

Statement of Net Position Overview (continued)
The District was not required to have an audit under Uniform Guidance for 2017 or 2016.

Statement of Net Position	2017	2016	Change	% Change
Capital Assets	3,684,320	3,873,816	(189,496)	(4.89%)
Current and Other Assets	1,555,878	1,543,416	12,462	0.81%
Other Assets	88,849	61,301	27,548	44.94%
Total Assets	5,329,047	5,478,533	(149,486)	(2.73%)
Long-term Liabilities	1,769,000	1,793,000	(24,000)	(1.34%)
Other Liabilities	630,512	577,501	53,011	9.18%
Total Liabilities	2,399,512	2,370,501	29,011	1.22%
Net Position:				
Invested in Capital Assets	1,891,320	2,015,815	(124,495)	(6.18%)
Restricted	72,481	29,700	42,781	144.04%
Unrestricted	965,734	1,062,517	(96,783)	(9.11%)
Total Net Position	2,929,535	3,108,032	(178,497)	(5.74%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev. Exp. and Changes in Net Position	2018	2017	Change	% Change
Operating Revenues	1,232,487	1,231,246	1,241	0.01%
Operating Expenses	1,541,445	1,457,552	83,893	5.76%
Operating Income/(Loss)	(308,958)	(226,306)	(82,652)	(36.52%)
Net Non-Operating Income	52,760	47,809	4,951	10.36%
Change in Net Position	(256,198)	(178,497)	(77,701)	(43.53%)

Financial Overview (continued)

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

Statement of Rev. Exp. and Changes in Net Position	2017	2016	Change	% Change
Operating Revenues	1,231,246	1,203,810	27,436	2.28%
Operating Expenses	1,457,552	1,378,739	78,813	5.72%
Operating Income/(Loss)	(226,306)	(174,929)	(51,377)	(29.37%)
Net Non-Operating Income	47,809	42,958	4,851	11.29%
Change in Net Position	(178,497)	(131,971)	(46,526)	(35.25%)

Assets
In 2018, the District's total assets decreased $121,288 from FY 2017. The Audit Report indicates the major increases were in "Fixed Assets" due to the improvement of several lines and meters. The largest decreases were in "Accounts Receivable" due to improved collections and "Cash" used to meet normal operating expenses.

In 2017, the District's total assets decreased $149,486 from FY 2016. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Cash" used to meet normal operating expenses.

Liabilities
In 2018, the District's total liabilities increased $134,910 from FY 2017. The Audit Report indicates the major changes were in "Net Pension Liability" and "Net OPEB Liability". Net Pension Liability and Net OPEB Liability increased $57,328 which explains the increase.

In 2017, the District's total liabilities increased $29,011 from FY 2016. The Audit Report indicates the major changes were in "Net Pension Liability" and "Deferred Inflows". Net Pension Liability increased $162,639 which explains the increase.

Net Assets
The District's assets exceeded its liabilities by $2,673,337 and $2,929,535 for fiscal years ended December 31, 2018 and 2017, respectively. This represents a decrease from fiscal year 2017 to 2018 of ($256,198) and 2016 to 2017 of ($178,497). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

Financial Overview (continued)

Net Assets (continued)
cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets
The District's investments in capital assets as of December 31, 2018, 2017 and 2016 amounted to \$3,750,468, \$3,684,320, and \$3,873,816 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included installation of new lines and meters.

Debt Administration

Long-Term Debt
The District has entered into an agreement with the U. S. Department of Agriculture to borrow \$1,668,000 and a subsequent \$190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The District repaid principal of \$24,000 principal payment in January 2018 and \$22,500 in January 2017. The loan is a 40 year loan at 3.125% interest payable semi-annually. In addition, prepayment of the loan is not allowed.

Budget

Budget
KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

The District, in April 2018, found and repaired a leak which was losing approximately 150,000 gallons per day. The District continues to vigorously search for and repair leaks throughout their system.

Administrative and General

The District continues to experience an increase in health care and retirement expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future. In addition, accounting pronouncements concerning the CERS pension and OPEB cost continue to rise and affect the bottom line for the District.

The District currently had four full-time employees in 2018 and 2017. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary. In response to these needs the District plans to hire additional field staff in 2019.

The District has experienced changes in the employer contribution rate to CERS for employee pension. The District contributed 21.48% of employees' gross compensation to the plan from July – December and 19.18% from January - June for the year ended December 31, 2018 and 19.18% for July – December and 18.68% from January - June during the year ended December 31, 2017. These rates are expected to continue to increase with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Kentucky Retirement System Board of Trustees had originally set the contribution rate effective July 1, 2018 at 28.05%, however, with the passage of House Bill 362, the rate increases were limited to 12% per fiscal year. The rate for July 1, 2018 through June 30, 2019 is 21.48%.

Overall

The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water loss was still at a very high rate averaging approximately 28.0% of purchased water throughout the year. However, in April 2018 the District discovered a leak underneath U.S. 127 South which was losing approximately 150,000 gallons per day, this discovery and repair should significantly reduce their water loss. Management continues to employ new methods in attempting to find and repair leaks and the percentage loss has dropped from the prior years. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018 & 2017

ASSETS

CURRENT ASSETS	2018	2017
Cash and Cash Equivalents	$ 215,422	$ 429,545
Cash - Restricted Customer Deposits	32,993	32,881
Certificates of Deposit	926,688	923,732
Accounts Receivable	69,688	96,036
Inventory	23,326	18,621
Accrued Interest Receivable	2,864	988
Prepaid Expenses	14,331	14,475
TOTAL CURRENT ASSETS	1,285,312	1,516,278
CAPITAL ASSETS		
Land & Buildings	55,431	55,431
Equipment	150,609	150,609
Vehicles	37,713	37,713
Water Lines, Hydrants, Towers, & Meters	6,342,403	6,048,617
Accumulated Depreciation	(2,835,688)	(2,608,050)
TOTAL CAPITAL ASSETS	3,750,468	3,684,320
NONCURRENT ASSETS		
Cash - Debt Reserve	49,500	39,600
TOTAL NONCURRENT ASSETS	49,500	39,600
DEFERRED OUTFLOWS (from pension & OPEB activity)		
Deferred Outflows - OPEB	30,768	-
Deferred Outflows - Pension	91,711	88,849
TOTAL DEFERRED OUTFLOWS	122,479	88,849
TOTAL ASSETS	$ 5,207,759	$ 5,329,047

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018 & 2017

LIABILITIES

CURRENT LIABILITIES	2018	2017
Accounts Payable	$ 145,652	$ 160,984
Customer Deposits	37,421	34,805
Customer Deposits - Accrued Interest	954	1,052
Accrued Sales Tax	750	545
Accrued School Tax	2,643	2,472
Accrued Payroll Tax	4,543	6,001
Accrued Pension Expense	1,996	3,258
Accrued Loan Interest Payable	27,641	28,016
Current Portion of Noncurrent Liabilities	24,500	24,000
Unearned Income	10,878	7,538
TOTAL CURRENT LIABILITIES	256,978	268,671
NONCURRENT LIABILITIES		
U.S. Department of Agriculture	1,769,000	1,793,000
Current Portion of Noncurrent Liabilities	(24,500)	(24,000)
Net OPEB Liability	108,784	-
Net Pension Liability	373,153	319,298
TOTAL NONCURRENT LIABILITIES	2,226,437	2,088,298
DEFERRED INFLOWS (from pension & OPEB activity)		
Deferred Inflows - OPEB	20,627	-
Deferred Inflows - Pension	30,380	42,543
TOTAL DEFERRED INFLOWS	51,007	42,543
TOTAL LIABILITIES	2,534,422	2,399,512

NET POSITION

Invested in Capital Assets, net of related debt	1,981,468	1,891,320
Net Assets Restricted	82,493	72,481
Net Assets Unrestriction	609,376	965,734
TOTAL NET POSITION	2,673,337	2,929,535
TOTAL LIABILITIES AND NET POSITION	$ 5,207,759	$ 5,329,047

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

OPERATING REVENUES	2018	2017
User Fees:		
Water - Residential	$ 942,664	$ 943,931
Water - Commercial	162,336	147,321
Sewer Surcharge Fees	69,184	83,500
Tap-on Fees	12,452	9,462
Late Payment Penalty Income	38,550	37,860
Reconnect Fees	7,301	9,172
Gain on Sale of Fixed Assets	-	-
TOTAL OPERATING REVENUES	1,232,487	1,231,246
OPERATING EXPENSES		
Water Purchased	601,186	655,527
Pumping Electricity	20,353	22,469
Payroll	180,122	163,007
Payroll Taxes	14,355	13,644
Employee Benefits	142,987	32,636
Retirement Benefits	65,731	72,322
Transmission and Distribution Expense	22,536	42,364
Administrative and General Expense	67,847	62,954
Interest Paid on Loans	55,281	56,031
Other Interest Expense	435	195
Water Testing	5,933	5,026
Maintenance & Repairs	74,232	43,441
Insurance & Workers' Comp	20,927	21,124
Taxes & Licenses	38,381	36,521
Bad Debts	3,501	2,206
Depreciation	227,638	228,085
TOTAL OPERATING EXPENSES	1,541,445	1,457,552
Operating Loss	(308,958)	(226,306)

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

NON OPERATING REVENUES (EXPENSES)	2018	2017
Sewer Fees Collected	586,271	552,537
Sewer Fees Paid	(540,257)	(508,193)
Interest Income	5,371	2,269
Other Income	1,375	1,196
TOTAL NON OPERATING REVENUES (EXPENSES)	52,760	47,809
Change in Net Position	(256,198)	(178,497)
Net Position - Beginning of Year	2,929,535	3,108,032
Net Position - End of Year	$ 2,673,337	$ 2,929,535

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

	2018	2017
Cash Flow from Operating Activities		
Cash received from users and customers	$ 1,228,602	$ 1,220,442
Cash payments to employees for services & benefits	(264,086)	(237,391)
Cash payments to suppliers of goods and services	(846,841)	(964,741)
Net Cash Provided (Used) by Operating Activities	117,675	18,310
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(24,000)	(22,500)
Purchase of equipment	(293,787)	(38,588)
Interest paid on Loans	(56,023)	(56,538)
Net Cash Provided (Used) by Capital & Related Financing Activities	(373,810)	(117,626)
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	587,646	552,537
Other non-operating expenses	(737)	56,731
Cash paid out from other non-operating expenses	(540,257)	(508,193)
Net Cash Provided (Used) by Noncapital Financing Activities	46,652	101,075
Cash Flows from Investing Activities		
Receipt of Interest	5,371	2,268
Redemption of a Certificates of Deposit	(122,341)	-
Purchases of Certificates of Deposit	122,341	-
Net Cash Provided (Used) by Investing Activities	5,371	2,268
Net Change in Cash and Cash Equivalents	(204,112)	4,027
Cash and Cash Equivalents, Beginning of Year	502,026	497,999
Cash and Cash Equivalents, End of Year	$ 297,914	$ 502,026
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	$ 75	$ 75
Cash Operations Account	215,346	429,470
Deposit Account	32,993	32,881
Debt Reserve Account	49,500	39,600
	$ 297,914	$ 502,026

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

Reconciliation of Operating Income to Net Cash Provided by Operating Activities		2018		2017
Operating Loss	$	(256,198)	$	(178,497)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities				
Depreciation		227,638		228,085
Bad Debts		3,501		-
Pension/OPEB Changes		137,473		44,219
Change in assets and liabilities				
Certificates of deposit		(2,956)		(1,380)
Accounts receivable		26,348		(1,506)
Inventory		(4,706)		(4,607)
Accrued interest receivable		(1,876)		(377)
Prepaid expenses		144		(565)
Accounts payable		(15,332)		(16,754)
Accrued payroll taxes payable		(1,459)		376
Customer deposits		2,616		(5,160)
Customer deposits - accrued interest		(98)		(2,379)
Accrued sales tax		205		(55)
Accrued school tax		172		110
Accrued pension expense		(1,262)		536
Unearned income		3,340		718
Accrued loan interest payable		(375)		(351)
USDA Loan Payable		500		1,500
Net Cash Provided by Operating Activities	$	117,675	$	63,913

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 & 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statute 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statute mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All of the District's activity is accounted for as business-type activities. Operating revenues relate to the District's primary function of the collection of water sales, likewise, operating expenses include the expenses for the distribution of water to customers. Non-operating revenues and expenses relate to all other revenue and expenses.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, 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 revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net asset use through external 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 – This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District does not provide an allowance for uncollectible accounts but rather expenses such items in the period they become uncollectible. This practice differs from generally accepted account principles but its impact is deemed immaterial. The amount written-off for the years ended December 31, 2018 and 2017 totaled $3,501 and $2,206, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District may turn off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of $1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled $1,858,000. The District paid $24,000 and $22,500 in principal during calendar years ended December 31, 2018 & 2017, respectively and the loan balance was $1,769,000 and $1,793,000 at December 31, 2018 & 2017, respectively.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the District's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2018 and 2017. See Note 4 for full disclosure of activity.

L. CASH AND CASH EQUIVALENTS

For business type activities all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. PREPAID EXPENSES

Prepaid expenses include expenditures for the insurance and software maintenance made in connection with future program and activities.

N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. Currently, the District has only one item that qualifies for reporting in this category: contributions subsequent to measurement date relating to the retirement information.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Currently, the District has only one item that qualifies for reporting in this category: net difference between projected actual earnings on pension plan investment relating to the retirement information.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of $250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was $297,915 and $502,026 for the years ended December 31, 2018 and 2017, respectively. The carrying amount of the District's certificates of deposit was $926,688 and

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT (continued)

$923,732 for the years ended December 31, 2018 and 2017, respectively. The bank balances and certificates of deposit are covered by $250,000 of FDIC insurance. At various times throughout the year and at year-end, this $250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Bank Balances and Certificates of Deposit at December 31, 2018, categorized by level of risk are:

	Risk Category 1	Risk Category 2	Risk Category 3	Bank Balances	Uninsured Uncollateralized	Book Value
Unrestricted Bank Balances	$ 215,421	$ -	$ -	$ 215,421	$ -	$ 215,421
Restrict Bank Balance	34,579	-	-	34,579	47,914	82,493
Certificates of Deposit	926,688	-	-	926,688	-	926,688
Total	$1,176,688	$ -	$ -	$ 1,176,688	$ 47,914	$1,224,602

Bank Balances and Certificates of Deposit at December 31, 2017, categorized by level of risk are:

	Risk Category 1	Risk Category 2	Risk Category 3	Bank Balances	Uninsured Uncollateralized	Book Value
Unrestricted Bank Balances	$ 250,000	$ -	$ -	$ 250,000	$ 179,470	$ 429,470
Restrict Bank Balance	-	-	-	-	72,481	72,481
Certificates of Deposit	726,694	-	-	726,694	197,038	923,732
Total	$ 976,694	$ -	$ -	$ 976,694	$ 448,989	$1,425,683

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District's threshold for capitalization is $2,500. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

The following represents the activity for the year ended December 31, 2018:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 37,713	$ 6,048,617	$6,292,370
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	- 0-	-0-	-0-	293,787	293,787
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,342,404	$ 6,586,157

The following represents the activity for the year ended December 31, 2017:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	$ 55,431	$ 150,609	$ 37,713	$ 6,010,029	$6,253,782
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	- 0-	-0-	-0-	38,588	38,588
Ending	$ 55,431	$ 150,609	$ 37,713	$ 6,048,617	$ 6,292,370

A summary of property and equipment and depreciation for the years ended December 31, 2018 and 2017 is as follows:

		Cost	Current Provision	Accumulated Depreciation
FY 2018	Property & Equipment	$6,586,157	$ 227,638	$ 2,835,688
FY 2017	Property & Equipment	$6,292,370	$ 228,085	$ 2,608,050

Land valued at $4,806 is not being depreciated.

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Tier 1 Non-Hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 Non-Hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age plus earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 Non-Hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. Senate Bill 2 of 2013 eliminated all future COLA's unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA was granted for the fiscal years ending June 30, 2018 or 2017.

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Employees covered by benefit terms: At the measurement date of June 30, 2018 and 2017:

	2018	2017
Estimated Inactive employees/beneficiaries currently receiving benefits	1	1
Estimated Inactive employees/beneficiaries not currently receiving benefits	1	1
Active employees	4	4
Total	6	6

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were $65,731 and $72,322 for the year ended December 31, 2018 and 2017, respectively. The District contributed 21.48% of employees' gross compensation to the plan from July – December and 19.18% from January - June for the year ended December 31, 2018. The District contributed 19.18% of employees' gross compensation to the plan from July – December and 18.68% from January - June for the year ended December 31, 2017. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

Actuarial Assumptions:

The total pension liability as of June 30, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.30% for June 30, 2018 and for June 30, 2017

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Salary increases	Representative values of the assumed annual rates of future salary increases from 3.05% for June 30, 2018 and 2017 including inflation
Investment rate of return	6.25% per annum @ June 30, 2018 and 2017 net of pension plan investment expense, including inflation

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 actuarial assumptions used in the June 30, 2018 and 2017 actuarial valuation was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 and 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods and data, as of that date. The roll-forward is based on the results of GRS' replication.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. 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 (see chart below). 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 assumptions are intended to be long-term assumptions

NOTE 4 - EMPLOYEE RETIREMENT (continued)

and are 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 long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 6.25% for June 30, 2018 and 6.25% for June 30, 2017 based on a blending of the factors described below:

June 30, 2018

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
U.S. Equity:	14.50%	17.50%
International Equity	13.75%	17.50%
Global Bonds	3.00%	10.00%
Credit Fixed	15.25%	17.00%
Private Equity	6.50%	10.00%
Real Estate	7.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	5.00%	10.00%
Cash	1.50%	3.00%
		100.00%

June 30, 2017

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
Combined Equity	5.40%	44%
Combined Fixed Income	1.50%	19%
Real Return (Diversified Inflation Strategies)	3.50%	10%
Real Estate	4.50%	5%
Absolute Return (Diversified Hedge Funds)	4.25%	10%
Private Equity	8.50%	10%
Cash	(.25)%	2%
		100.00%

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Discount Rate:

The discount rate used to measure the total pension liability was 6.25% for June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent for June 30, 2018, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District net pension liability - 2018	$ 469,761	$ 373,153	$ 292,212

The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent for June 30, 2017, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District net pension liability - 2017	$ 402,704	$ 319,298	$ 249,530

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

At December 31, 2018, the District reported a liability of $373,153 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating CERS members, actuarially determined. At June 30, 2018, the District recognized pension expense of $65,731. At December 31, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Amounts per audited KRS financial report	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 12,171	$ 5,462
Changes in Assumptions	36,468	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	17,352	21,826
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	25,720	3,092
Measurement Date of June 30	$ 91,711	$30,380

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments and Contribution Subsequent to the Measurement Date of June will be recognized in pension expense as follows:

NOTE 4- EMPLOYEE RETIREMENT (continued)

Year Ended June 30:

2019	$ 38,088
2020	25,245
2021	1
2022	(2,003)
Total	$ 61,331

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2018, the District contributed 19.18% from January – June and 21.48% thereafter. In 2017, the District contributed 18.68% from January – June and 19.18% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan $1,996 and $3,258 at December 31, 2018 and 2017, respectively.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended June 30, 2018, determined as of June 30, 2016. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	27 Years for June 30, 2018, closed and 28 Years for June 30, 2017
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized for the year ended June 30, 2018 and 2017
Inflation	3.25 Percent for June 30, 2018 & June 30, 2017
Salary Increase	4.0 Percent Average for June 30, 2018 and June 30, 2017
Payroll Growth Rate	4.0%
Investment Rate of Return	7.50 Percent for June 30, 2018 and for June 30, 2017, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	June 30, 2016

NOTE 4 - EMPLOYEE RETIREMENT (continued)

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS

In addition to the pension benefits described in Note 4, the District participates in the Kentucky Retirement Systems Insurance fund (Fund). The Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701 to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System (KRS). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase medical insurance.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), 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 a 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. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

NOTE 5 – – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District's contractually required contribution rate for the period of January 2018 through June 2018 was 4.70% of covered payroll and the contribution rate for the period July 2018 through December 2018 was 5.26%. Contributions to the Insurance Fund from the District were $7,802 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

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

At December 31, 2018, the District reported a liability of $108,784 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for the plan fiscal year 2018 (July 1, 2017 through June 30, 2018). This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2018, the District's proportion was 0.006127%.

For the year ended December 31, 2018, the District recognized OPEB expense of $98,643, included as part of employment benefits of $142,987. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

Amounts per audited KRS financial report	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ -0-	$ 12,677
Changes in Assumptions	21,726	251
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-0-	7,493
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	9,042	206
Measurement Date of June 30	$ 30,768	$ 20,627

Of the total amount reported as deferred outflows of resources related to OPEB, $6,842 resulting from the District's contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ended June 30:

2019	$ 2,045
2020	2,045
2021	2,045
2022	3,500
2023	(33)
Thereafter	(204)
Total	$ 9,398

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates:

Inflation	2.30 Percent
Salary Increase	3.05 Percent
Investment Rate of Return	6.25 Percent
Healthcare cost trend rates Pre-65	Initial trend starting at 7.00% as of January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Healthcare cost trend rates Post-65	Initial trend starting at 5.00% as of January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

The long-term expected rate of return was determined by using a building-block method in which 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 below:

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

Asset Class	Long-Term Expected Real Rate of Return	Expected Target Allocation
U.S. Equity:		
US Large Cap	4.50%	5.00%
US Mid Cap	4.50%	6.00%
US Small Cap	5.50%	6.50%
International Equity		
International Developed	6.50%	12.50%
Emerging Markets	7.25%	5.00%
Global Bonds	3.00%	4.00%
Credit Fixed	23.75%	24.00%
Private Equity	6.50%	10.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Cash	1.50%	2.00%
		100.00%

Discount rate. The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the collective net OPEB liability as well as what the RWGS's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.85%) or 1 percentage point higher (6.85%) than the current discount rate:

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
District's Net OPEB liability	$ 141,761	$ 108,784	$ 81,092

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following table presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
District's Net OPEB Liability	$ 81,092	$ 108,784	$ 141,544

The amount of contribution paid by the Fund is based on years of service. For members participating prior to July 1, 2003, the years of service and respective percentages of the maximum contribution were as follows:

Years of Service	Paid by Insurance Fund
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

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 ten years, non-hazardous employees who participating began on or after July 1, 2003 earn ten dollars ($10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

NOTE 5 – POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS (continued)

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a $60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%.

The estimated accrued interest on these deposits at December 31, 2018 & 2017 was $954 and $1,052, respectively.

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2018 and 2017 by $12,452 and $9,462, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855-10-50-1 "Subsequent Events". The Organization evaluated events occurring between the end of its most recent year end and this report date. Management believes no significant events occurred subsequent to the date of this report which is the date the financial statements were available to be issued.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principal payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit $750 per month for the original loan and $75 per month for the subsequent loan until such time the account reaches $98,500. Management has opened this account and had a balance of $49,500 at December 31, 2018 and $39,600 at December 31, 2017.

The District paid $24,000 of principal on January 1, 2018 and $22,500 of principal on the loan on January 1, 2017. In addition another $24,500 in principal is due on January 1, 2019. Total interest expense on this loan was $55,281 and $56,031 for December 31, 2018 and 2017, respectively.

The District's long-term debt at December 31, 2018 is detailed as follows:

	Principal Balance 12/31/17	Borrowings	Payments	Principal Balance 12/31/18	Current Portion	Long-Term Portion
USDA Loan	$1,793,000	-0-	$ 24,000	$ 1,769,000	$ 24,500	$ 1,744,500

The District's long-term debt at December 31, 2017 is detailed as follows:

	Principal Balance 12/31/16	Borrowings	Payments	Principal Balance 12/31/17	Current Portion	Long-Term Portion
USDA Loan	$1,815,500	-0-	$ 22,500	$ 1,793,000	$ 24,000	$ 1,769,000

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021	26,500	52,891	79,391
2022	27,500	52,031	79,531
2023	29,000	51,125	80,125
2024 - 2026	94,000	147,578	241,578
2027 – 2031	185,000	224,063	409,063
2032 - 2036	226,500	191,375	417,875
2037 – 2041	278,500	151,203	429,703
2042 – 2046	340,500	102,062	442,562
2047 – 2051	418,000	41,750	459,750
2052	93,500	- 0 -	93,500
Total	$ 1,769,000	$ 1,122,313	$2,891,313

NOTE 10 – RISK MANAGEMENT

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

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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2018 and 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 June 10, 2019.

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 opinions 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 over financial reporting.

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 over financial reporting 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audits, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audits, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

2017-1 FDIC Coverage of Deposits and Certificates of Deposit

Condition – The District does not have internal control procedures designed to ensure that all deposit accounts and certificates of deposits are covered by FDIC insurance. At many times throughout the year the balances exceeded the $250,000 FDIC insurance coverage putting these funds at risk of loss if the bank were to fail.

Criteria – A good system of internal control establishes internal controls which effectively and timely ensure all assets are adequately insured.

Effect – Inadequate controls could result in significant financial loss if the banks were to fail.

Cause – District personnel have not adequately monitored bank balances to ensure all accounts have adequate insurance.

Recommendation – We recommend management review total funds at all banking institutions and move funds as needed to ensure adequate FDIC coverage.

Management Response – Management agrees and will implement the policy immediately.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated June 10, 2019.

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.

Harrod & Associates, PSC
Frankfort, KY 40601

June 10, 2019

REQUIRED SUPPLEMENTAL INFORMATION

FARMDALE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017
(in thousands)

	2018	2017	2016	2015
Total Net Pension Liability for County Employees Retirement System (in thousands)	$ 6,090,305	$ 5,853,443	$ 4,299,525	$ 3,244,377
Employer's Proportion (Percentage) of Net Pension Liability	0.00613%	0.00546%	0.00532%	0.00600%
Employer's Proportion (Amount) of Net Pension Liability	$ 373,153	$ 319,298	$ 261,970	$ 257,923
Employer's Covered-Employer Payroll	$ 125,739	$ 148,407	$ 120,993	$ 138,847
Employer's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of Employer's Covered-Employer Payroll	296.77%	215.60%	216.52%	185.76%
Total Pension Plan's Fiduciary Net Position (in thousands)	$ 7,018,963	$ 6,687,237	$ 6,440,800	$ 6,528,146
Total Pension Plan's Pension Liability (in thousands)	$ 13,109,268	$ 12,540,545	$ 10,740,325	$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	53.54%	53.32%	59.97%	66.80%

See Independent Auditor's Report

FARMDALE WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

	2018	2017	2016	2015
Actuarially Determined Contribution	$ 21,989	$ 18,528	$ 15,116	$ 54,050
Contributions in Relation to the Actuarially Determined Contribution	24,042	28,103	26,755	31,828
Contribution Deficiency (Excess)	(2,053)	(9,575)	(11,639)	22,222
Covered-Employee Payroll	$ 125,739	$ 148,407	$ 120,993	$ 138,847
Contributions as a Percentage of Covered-Employee Payroll	19.12%	18.94%	22.11%	22.92%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	27 Years for June 30, 2018, closed and 28 Years for June 30, 2017
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized for the year ended June 30, 2018 and 2017
Inflation	3.25 Percent for June 30, 2018 & June 30, 2017
Salary Increase	4.0 Percent Average for June 30, 2018 and June 30, 2017,
Payroll Growth Rate	4.00%
Investment Rate of Return	7.50 Percent for June 30, 2018 and for June 30, 2017, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	06/30/2016

See Independent Auditor's Report

FARMDALE WATER DISTRICT
SCHEDULE OF NET OPEB LIABILITY AND RELATED RATIONS BASED ON PARTICIPATION IN CERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(in thousands)

	2018
Total Net OPEB Liability for County Employees Retirement System (in thousands)	$ 1,775,480
Employer's Proportion (Percentage) of Net OPEB Liability	0.00613%
Employer's Proportion (Amount) of Net OPEB Liability	$ 108,784
Employer's Covered-Employer Payroll	$ 125,739
Employer's Proportionate Share (Amount) of the Net OPEB Liability as a Percentage of Employer's Covered-Employer Payroll	86.52%
Total OPEB Plan's Fiduciary Net Position (in thousands)	$ 2,414,126
Total OPEB Plan's OPEB Liability (in thousands)	$ 4,189,606
Total OPEB Plan's Fiduciary Net Position as a Percentage of Total OPEB Liability	57.62%

See Independent Auditor's Report

FARMDALE WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS INSURANCE FUND
FOR THE YEARS ENDED DECEMBER 31, 2018

	2018
Actuarially Determined Contribution	$ 7,137
Contributions in Relation to the Actuarially Determined Contribution	7,802
Contribution Deficiency (Excess)	(665)
Covered-Employee Payroll	$ 125,739
Contributions as a Percentage of Covered-Employee Payroll	6.20%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.
See independent auditor's report.

Notes to Schedules Related to the County Employees' Insurance Fund of KRS Information

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2018:

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date	06/30/2016
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll Growth Rate	4.00 percent
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Investment Rate of Return	7.50 percent
Retirement age	65 years or 27 years of service regardless of age
Healthcare Trend Rates Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Trend Rates Post – 65	Post - 65 Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

See Independent Auditor's Report

FARMDALE WATER DISTRICT

CASE NO. 2019-00041

Response to Commission Staff's Post Hearing Request for Information

Question No. 2

Responding Witness: Brian Armstrong

Q-2. Provide the last name of the employee identified as "Jamie" in the May 3, 2019 board minutes and indicate whether he is related to anyone either employed by Farmdale District or serving on the Farmdale District Board of Commissioners.

A-2. The employee's full name is Jamie Heath Roberts. He is not related to any employee of Farmdale District or anyone serving on the Farmdale District Board of Commissioners.

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that Farmdale Water District's electronic filing of this Response is a true and accurate copy of the same document being filed in paper medium; that the electronic filing was transmitted to the Public Service Commission on July 19, 2019; that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding; and that an original paper medium of this Response will be delivered to the Public Service Commission within two business days.

Damon R. Talley

Damon R. Talley