

**Western Pulaski County Water District**

**Financial Statements**

**December 31, 2017 and 2016**



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Cindy L. Greer, CPA • L. Joe Rutledge, CPA • Jonathan W. Belcher, CPA • R. Brent Billingsley, CPA  
Skip R. Campbell, CPA • Ryan A. Mosier, CPA • Jenna B. Glass, CPA • Sharon Waggener, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Western Pulaski County Water District  
Somerset, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Western Pulaski County Water District, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

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

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4-6 and the Pension Liability Schedules on pages 23-24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Statements of Revenues, Expenses and Change in Net Position – Budget and Actual for 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statements of Revenue, Expenses, and Change in Net Position – Budget and Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statements of Revenues, Expenses and Change in Net Position – Budget and Actual are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2018 on our consideration of the Western Pulaski County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Western Pulaski County Water District's internal control over financial reporting and compliance.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

April 23, 2018

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

As management of the Western Pulaski County Water District, we offer readers of the District's financial statements this narrative overview of the financial activities of the District for the fiscal years ending December 31, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

### **Financial Highlights**

For the years ended December 31, 2017 and 2016 total operating and non-operating revenues (including capital contributions) were \$3,034,971 and \$3,217,552, respectively. This decrease is related primarily to a decrease in grant revenue in 2017.

Total operating and non-operating expenses amounted to \$2,783,164 and \$2,920,185, for the years ended December 31, 2017 and 2016.

Total assets and deferred outflows increased by \$1,064,879, and total liabilities and deferred inflows increased by \$813,072. These changes resulted in an increase in net position of \$251,807.

During 2017, the District used loan funds from KIA to begin construction on the Hickory Nut Tank project.

### **Overview of the Financial Statements**

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

### **Required Financial Statements**

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

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

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

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

**Western Pulaski County Water District  
Summary of Net Position  
December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Total Current Assets	\$ 2,431,187	\$ 2,077,473
Total Restricted Assets	595,900	527,420
Net Capital Assets	<u>13,233,191</u>	<u>12,656,560</u>
<b>Total Assets</b>	<u>16,260,278</u>	<u>15,261,453</u>
Deferred Outflows	<u>186,751</u>	<u>120,697</u>
<b>Liabilities</b>		
Total Current Liabilities	798,509	592,496
Total Long-term Liabilities	<u>6,047,314</u>	<u>5,434,230</u>
<b>Total Liabilities</b>	<u>6,845,823</u>	<u>6,026,726</u>
Deferred Inflows	<u>40,456</u>	<u>46,481</u>
<b>Net Position</b>		
Invested in capital assets, net of related debt	7,608,193	7,551,560
Restricted for equipment replacement	323,715	281,450
Restricted for debt retirement	272,185	245,970
Unrestricted	<u>1,356,657</u>	<u>1,229,963</u>
<b>Total Net Position</b>	<u>\$ 9,560,750</u>	<u>\$ 9,308,943</u>

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

Restricted net position (6%) represent resources that are subject to external restrictions on how they may be used.

The balance (14%) of unrestricted net position may be used to meet the District's ongoing obligations to citizens, consumers and creditors.



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

**Western Pulaski County Water District  
Summary of Changes in Net Position  
For the Year Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Total operating revenues	\$ 2,921,392	\$ 2,985,445
Total operating expenses	<u>2,627,129</u>	<u>2,762,481</u>
Operating income (loss)	294,263	222,964
Total non-operating revenue (expense)	<u>(112,346)</u>	<u>(89,835)</u>
Income before capital contributions	181,917	133,129
Capital contributions	<u>69,890</u>	<u>164,238</u>
Increase (decrease) in net position	251,807	297,367
Net position, beginning of year	<u>9,308,943</u>	<u>9,011,576</u>
Net position, end of year	<u>\$ 9,560,750</u>	<u>\$ 9,308,943</u>

Net position increased by \$251,807 from the prior year.

**Capital Asset Changes**

At December 31, 2017, the District had invested \$13,233,191 in capital assets net of accumulated depreciation. This amount represents a net increase of \$576,631 from the previous year.

**Budgetary Highlights**

The Western Pulaski County Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised. A budget comparison and analysis is presented on pages 25-26 of this report.

**Debt Administration**

At December 31, 2017, the District had \$5,624,998 in outstanding debt, an increase of \$519,998 from the prior year's balance of \$5,105,000. The District incurred \$156,035 in interest expense associated with long term debt, a decrease of \$1,669.

**Request for Information**

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

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2017 and 2016**

<b>Assets</b>	<u>2017</u>	<u>2016</u>
<b>Current Assets</b>		
Cash	\$ 2,038,184	\$ 1,671,626
Accounts receivable	360,773	373,879
Prepaid assets	8,230	7,968
Inventory	<u>24,000</u>	<u>24,000</u>
Total Current Assets	<u>2,431,187</u>	<u>2,077,473</u>
<b>Non-current Assets</b>		
Restricted Assets		
Cash - Depreciation fund	323,715	281,450
Cash - Bond and interest	<u>272,185</u>	<u>245,970</u>
Total Restricted Assets	<u>595,900</u>	<u>527,420</u>
Capital Assets		
Construction in progress	879,246	-
Land and land rights	494,938	494,938
Utility plant in service	20,730,873	20,630,038
Equipment	581,577	581,577
Accumulated depreciation	<u>(9,453,443)</u>	<u>(9,049,993)</u>
Net Capital Assets	<u>13,233,191</u>	<u>12,656,560</u>
Total Non-current Assets	<u>13,829,091</u>	<u>13,183,980</u>
 Total Assets	 <u>16,260,278</u>	 <u>15,261,453</u>
 Deferred Outflows		
Outflows relating to net pension liability	<u>186,751</u>	<u>120,697</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statements of Net Position, Concluded**  
**December 31, 2017 and 2016**

<b>Liabilities</b>	<u>2017</u>	<u>2016</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 131,680	\$ 118,495
Construction accounts payable	163,969	-
Customer deposits	216,192	191,119
Accrued liabilities	15,632	18,346
Accrued interest	78,536	78,536
Current maturities of long-term debt	<u>192,500</u>	<u>186,000</u>
<b>Total Current Liabilities</b>	<u>798,509</u>	<u>592,496</u>
<b>Long-term Liabilities</b>		
Accrued compensated absences	20,463	19,828
Long-term debt, less current maturities	5,432,498	4,919,000
Net pension liability	<u>594,353</u>	<u>495,402</u>
<b>Total Long-term Liabilities</b>	<u>6,047,314</u>	<u>5,434,230</u>
<b>Total Liabilities</b>	<u>6,845,823</u>	<u>6,026,726</u>
<b>Deferred Inflows</b>		
Inflows relating to net pension liability	<u>40,456</u>	<u>46,481</u>
<b>Net Position</b>		
<b>Net Position</b>		
Invested in capital assets, net of related debt	7,608,193	7,551,560
Restricted for equipment replacement	323,715	281,450
Restricted for debt retirement	272,185	245,970
Unrestricted	<u>1,356,657</u>	<u>1,229,963</u>
<b>Total Net Position</b>	<u>\$ 9,560,750</u>	<u>\$ 9,308,943</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating revenues:</b>		
Residential water sales	\$ 2,664,616	\$ 2,690,859
Commercial water sales	165,145	189,892
Miscellaneous service revenues	91,631	104,694
Total operating revenues	<u>2,921,392</u>	<u>2,985,445</u>
<b>Operating expenses:</b>		
Water purchases	1,202,274	1,223,194
Utilities	81,219	83,081
Transmission and distribution expense	63,660	64,041
Meter readers	99,172	97,926
Office expense	60,300	51,711
Transportation expenses	21,857	30,103
Insurance	49,404	53,726
Directors' fees	12,200	12,600
Employees' salaries and wages	323,061	310,065
Employees' pensions and benefits	138,395	126,756
Actuarial pension expense	26,872	35,634
Payroll taxes	29,210	27,882
Depreciation and amortization	440,250	563,573
PSC tax assessment	6,030	5,541
Professional fees	45,716	45,522
Bad debts	10,619	11,169
Miscellaneous	16,890	19,957
Total operating expenses	<u>2,627,129</u>	<u>2,762,481</u>
Operating income (loss)	<u>294,263</u>	<u>222,964</u>
<b>Non-operating revenue (expenses):</b>		
Rents from water property	42,113	63,749
Interest income	1,576	4,120
Interest expense on long-term debt	(156,035)	(157,704)
Total non-operating revenue (expenses)	<u>(112,346)</u>	<u>(89,835)</u>
Income/(loss) before capital contributions	<u>181,917</u>	<u>133,129</u>
<b>Capital contributions</b>		
Grant revenue	-	101,378
Tap fees	69,890	62,860
Total capital contributions	<u>69,890</u>	<u>164,238</u>
Increase (decrease) in net position	251,807	297,367
<b>Net position:</b>		
Beginning of year	9,308,943	9,011,576
End of year	<u>\$ 9,560,750</u>	<u>\$ 9,308,943</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statements of Cash Flows**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 2,959,571	\$ 3,054,493
Cash payments to suppliers for goods and services	(1,676,142)	(1,718,213)
Cash payments to employees for services	<u>(473,021)</u>	<u>(447,444)</u>
Net cash provided (used) by operating activities	<u>810,408</u>	<u>888,836</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal paid on long-term debt	(186,000)	(183,000)
Proceeds from KIA loan	705,998	-
Interest paid on long-term debt	(156,035)	(160,688)
Additions to capital assets	(1,016,881)	(367,834)
Increase (decrease) in construction payable	163,969	(25,854)
Grant revenue	-	101,378
Tap fees	<u>69,890</u>	<u>62,860</u>
Net cash provided (used) in financing activities	<u>(419,059)</u>	<u>(573,138)</u>
<b>Cash flows from investing activities:</b>		
Rental income	42,113	63,749
Interest income	<u>1,576</u>	<u>4,120</u>
Net cash provided by (used) in investing activities	<u>43,689</u>	<u>67,869</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	435,038	383,567
Cash and cash equivalents, beginning of year	<u>2,199,046</u>	<u>1,815,479</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 2,634,084</u>	<u>\$ 2,199,046</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 294,263	\$ 222,964
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	440,250	563,573
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	13,106	47,002
(Increase) decrease in prepaid assets	(262)	(418)
(Increase) decrease in inventory	-	(500)
Increase (decrease) in actuarial pension related items	26,872	35,634
Increase (decrease) in accounts payable	13,185	(4,415)
Increase (decrease) in customer deposits	25,073	22,046
Increase (decrease) in accrued liabilities	<u>(2,079)</u>	<u>2,950</u>
Net cash provided (used) by operating activities	<u>\$ 810,408</u>	<u>\$ 888,836</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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

Organization

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

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

Measurement Focus and Basis of Accounting

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

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

Financial Statement Presentation

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

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

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

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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

These classifications are defined as follows:

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

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Receivables

The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of December 31, 2017 and 2016. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation expense for the year ending December 31, 2017 and 2016 was \$440,250 and \$563,573, respectively.

During 2017, the District extended the estimated depreciable lives of certain capital assets to more accurately reflect Public Service Commission approved rates.

The estimated useful lives of capital assets are as follows:

Utility plant	40 - 62.5 years
Equipment	10 - 25 years

Cash and Investments

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

Long-Term Obligations

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

Inventory

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

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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

Certain amounts in the 2016 financial statements were reclassified to conform to the 2017 presentation.

Operating Revenues and Expenses

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

Capital Contributions

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

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

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

Bond and Interest Redemption Fund

The ordinances authorizing the bond issues require monthly deposits of one-twelfth of the annual bond principal requirement and one-sixth of the semi-annual interest requirement. For the years ended December 31, 2017 and 2016, the District had complied with this requirement.

Use of Estimates

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

Depreciation Fund

The ordinances authorizing the various bond issues of the District require annual transfers of \$29,700 into a depreciation fund until the maximum requirement of \$305,940 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the years ended December 31, 2017 and 2016, the District had complied with this requirement.

Compensated Absences

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



**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 2 – Capital Assets**

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

<u>2017</u>	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and rights	\$ 494,938	\$ -	\$ -	\$ 494,938
Construction in progress	-	879,246	-	879,246
<i>Total Non-Depreciable Capital Assets</i>	<u>494,938</u>	<u>879,246</u>	<u>-</u>	<u>1,374,184</u>
<i>Capital Assets being depreciated</i>				
Transmission and distribution lines	6,799,768	-	-	6,799,768
Line extensions	9,913,411	-	-	9,913,411
Meter installations	2,282,474	120,515	(36,800)	2,366,189
Services	568,482	-	-	568,482
Communication radios	9,106	-	-	9,106
Office equipment	207,799	-	-	207,799
Equipment and tools	62,743	-	-	62,743
Office building	255,572	-	-	255,572
Buildings	210,575	17,120	-	227,695
Distribution reservoir	46,477	-	-	46,477
Hydrants	20,147	-	-	20,147
Electric pumping equipment	533,133	-	-	533,133
Trucks	301,928	-	-	301,928
<i>Total Depreciable Capital Assets</i>	<u>21,211,615</u>	<u>137,635</u>	<u>(36,800)</u>	<u>21,312,450</u>
Less: Accumulated depreciation	<u>(9,049,993)</u>	<u>(440,250)</u>	<u>36,800</u>	<u>(9,453,443)</u>
Total Net Capital Assets	<u>\$ 12,656,560</u>			<u>\$ 13,233,191</u>
<u>2016</u>	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and rights	\$ 481,988	\$ 12,950	\$ -	\$ 494,938
<i>Total Non-Depreciable Capital Assets</i>	<u>481,988</u>	<u>12,950</u>	<u>-</u>	<u>494,938</u>
<i>Capital Assets being depreciated</i>				
Transmission and distribution lines	6,799,768	-	-	6,799,768
Line extensions	9,797,605	115,806	-	9,913,411
Meter installations	2,203,334	105,990	(26,850)	2,282,474
Services	568,482	-	-	568,482
Communication radios	9,106	-	-	9,106
Office equipment	200,118	7,681	-	207,799
Equipment and tools	57,543	5,200	-	62,743
Office building	250,137	5,435	-	255,572
Buildings	137,934	72,641	-	210,575
Distribution reservoir	46,477	-	-	46,477
Hydrants	20,147	-	-	20,147
Electric pumping equipment	533,133	-	-	533,133
Trucks	259,797	42,131	-	301,928
<i>Total Depreciable Capital Assets</i>	<u>20,883,581</u>	<u>354,884</u>	<u>(26,850)</u>	<u>21,211,615</u>
Less: Accumulated depreciation	<u>(8,513,270)</u>	<u>(563,573)</u>	<u>26,850</u>	<u>(9,049,993)</u>
Total Net Capital Assets	<u>\$ 12,852,299</u>			<u>\$ 12,656,560</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 2 – Capital Assets, Concluded**

Capitalization of Interest:

Interest costs incurred during construction are capitalized. Interest capitalized for the year ended December 31, 2017 and 2016 was \$3,780 and \$0, respectively.

**Note 3 – Long-Term Debt**

Long-term debt consists of the following bonds payable at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Series 2002A Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$900,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	\$ 740,000	\$ 756,000
Series 2002B Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$550,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	450,000	460,000
Series 2010 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$911,000; due in annual installments on January 1, through 2049; interest rate of 2.25% due semi-annually on January 1 and July 1.	821,500	837,500
Series 2012E Water Revenue Bonds issued through Kentucky Rural Water Finance Corporation in the amount of \$2,080,000; (to refund Series 2001A and 2001B revenue bonds) due in annual installments on July 1, through 2035; interest rate of 2.2 - 3.7% due semi-annually on January 1 and July 1.	1,555,000	1,675,000
Series 2013 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$1,400,000; due in annual installments on January 1, through 2053; interest rate of 2.25% due semi-annually on January 1 and July 1.	<u>1,352,500</u>	<u>1,376,500</u>
Total Bonds Payable:	<u>\$ 4,919,000</u>	<u>\$ 5,105,000</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 3 – Long-Term Debt, Continued**

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

	Principal	Interest	Total
2018	\$ 192,500	\$ 151,308	\$ 343,808
2019	196,500	146,063	342,563
2020	202,500	139,791	342,291
2021	210,500	133,291	343,791
2022	217,500	126,541	344,041
2023-2027	947,000	527,793	1,474,793
2028-2032	728,500	398,289	1,126,789
2033-2037	749,000	267,518	1,016,518
2038-2042	701,500	147,932	849,432
2043-2047	395,500	65,199	460,699
2048-2052	324,000	22,118	346,118
Thereafter	54,000	608	54,608
	<u>\$ 4,919,000</u>	<u>\$ 2,126,451</u>	<u>\$ 7,045,451</u>

Long-term debt activities for the year ended December 31, 2017 and 2016 are as follows:

Debt	Balance January 1, 2017	Additions	Debt Payments and Reductions	Balance December 31, 2017	Amount Due within One Year
RD 2002A	\$ 756,000	\$ -	\$ (16,000)	\$ 740,000	\$ (16,000)
RD 2002B	460,000	-	(10,000)	450,000	(10,000)
RD 2010	837,500	-	(16,000)	821,500	(16,500)
KRWFC 2012E	1,675,000	-	(120,000)	1,555,000	(125,000)
RD 2013	1,376,500	-	(24,000)	1,352,500	(25,000)
KIA F16-003	-	705,998	-	705,998	-
	<u>\$ 5,105,000</u>	<u>\$ 705,998</u>	<u>\$ (186,000)</u>	<u>\$ 5,624,998</u>	<u>\$ (192,500)</u>

Debt	Balance January 1, 2016	Additions	Debt Payments and Reductions	Balance December 31, 2016	Amount Due within One Year
RD 2002A	\$ 771,000	\$ -	\$ (15,000)	\$ 756,000	\$ (16,000)
RD 2002B	469,000	-	(9,000)	460,000	(10,000)
RD 2010	853,000	-	(15,500)	837,500	(16,000)
KRWFC 2012E	1,795,000	-	(120,000)	1,675,000	(120,000)
RD 2013	1,400,000	-	(23,500)	1,376,500	(24,000)
	<u>\$ 5,288,000</u>	<u>\$ -</u>	<u>\$ (183,000)</u>	<u>\$ 5,105,000</u>	<u>\$ (186,000)</u>

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The District performed calculations of excess investment earnings on various bonds and at December 31, 2017 and 2016 does not expect to incur a liability.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 3 – Long-Term Debt, Concluded**

Long-term debt also includes a note payable to Kentucky Infrastructure Authority which was not yet finalized at December 31, 2017.

	<u>2017</u>	<u>2016</u>
KIA F16-003 Loan issued through Kentucky Infrastructure Authority of the Federally Assisted Drinking Water Revolving Loan Fund for Water System Improvements project not to exceed \$3,304,000; interest of 1.75% due on June 1 or December 1, immediately succeeding date of initial draw of funds. A loan servicing fee of .25% of the annual outstanding balance shall be payable as part of each interest payment.	\$ 705,998	\$ -
Total Notes Payable:	<u>\$ 705,998</u>	<u>\$ -</u>

**Note 4 – Cash and Investments**

The carrying amount of the District’s cash deposits was \$2,634,084 and \$2,199,046 for the years ending December 31, 2017 and 2016, respectively and the bank balances were \$2,668,170 and \$2,225,044. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. All of the District’s deposits were either insured by FDIC or by collateral pledged by Citizens National Bank.

**Note 5 – Pension Plan**

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

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

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 5 – Pension Plan, Continued**

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

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

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

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

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

Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 5 – Pension Plan, Continued**

At December 31, 2017, the District reported a liability for its proportionate share of the net pension liability for CERS.

District's proportionate share of the CERS net pension liability \$ 594,353

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 using standard roll forward techniques.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was .01207%.

For the year ended December 31, 2017, the District recognized pension expense of \$92,214. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience in the measurement of the total pension liability	\$ 4,778	\$ -
Net difference between projected and actual earnings on pension plan investments	48,252	26,028
Changes in assumptions	57,977	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,402	14,428
District contributions subsequent to the measurement date	<u>65,342</u>	<u>-</u>
	<u>\$ 186,751</u>	<u>\$ 40,456</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 5 – Pension Plan, Continued**

The 2017 CERS employer contributions are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows related to pensions will be amortized and recognized in pension expense as follows:

<u>Year Ended</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
12/31/2018	\$ 41,778	\$ 13,108
12/31/2019	41,778	13,108
12/31/2020	25,791	11,884
12/31/2021	12,062	2,356
12/31/2022	-	-
	<u>\$ 121,409</u>	<u>\$ 40,456</u>

*Actuarial assumptions*—The following actuarial assumptions used in the June 30, 2015 actuarial valuation report were based on the results of an actuarial experience study for the period of July 1, 2008 - June 30, 2013:

Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of investment expense and inflation	7.50%

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 5 – Pension Plan, Continued**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	<u>2.0%</u>	-0.25%
Total	<u>100.0%</u>	

*Discount rate:* The discount rate used to measure the total pension liability was 7.50%.

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

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	\$740,570	\$594,353	\$468,882

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

Non-hazardous plan members are required to contribute 5% of their annual creditable compensation. The Western Pulaski County Water District is required to contribute at actuarially determined rates. The rates for the years ended June 30, 2017 and 2016 were 18.68% and 17.06%, respectively, for non-hazardous employees' annual creditable compensation. The compensation requirements of the plan members of the Western Pulaski County Water District, are established and may be amended by the Board of Trustees of KRS.



**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 5 – Pension Plan, Concluded**

For the year ended December 31, 2017, the District's total covered payroll was approximately \$345,000. The District contributed approximately \$65,000 and employees contributed approximately \$17,000.

**Note 6 - Subsequent Events**

Management has evaluated subsequent events through April 23, 2018, the date which the financial statements were available to be issued.

**Note 7 – Deferred Inflows/Deferred Outflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2017 and 2016 the District reported deferred outflows related to the pension liability in the amount of \$186,751 and \$120,697 respectively.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At December 31, 2017 and 2016 the District reported deferred inflows related to the pension liability in the amount of \$40,456 and \$46,481, respectively.

**Note 8 – Commitments**

The District began the Water System Improvements and Replacements Project in 2017 that includes the construction of the Big Clifty Creek Area Water Main Transmission as well as Hickory Nut Tank. The Kentucky Infrastructure Authority granted approval of loan funds not to exceed \$3,304,000. The USDA Rural Development approved loan funds in the amount of \$2,255,000 and grant funds in the amount of \$854,000. Construction in progress at December 31, 2017 on the projects was \$879,246.

**Required Supplementary Information**

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

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

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

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

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

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

## **Supplementary Information**

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statement of Revenues, Expenses and**  
**Change in Net Position – Budget and Actual**  
**For the Year Ended December 31, 2017**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating revenues:</b>			
Water sales-residential	\$ 2,790,000	\$ 2,664,616	\$ (125,384)
Water sales-commercial	180,000	165,145	(14,855)
Miscellaneous service revenues	<u>215,900</u>	<u>91,631</u>	<u>(124,269)</u>
Total operating revenues	<u>3,185,900</u>	<u>2,921,392</u>	<u>(264,508)</u>
<b>Operating expenses:</b>			
Salaries and wages-employees	364,600	323,061	41,539
Purchased water	1,200,000	1,202,274	(2,274)
Materials and supplies	382,000	190,385	191,615
Contractual services	163,000	144,888	18,112
Other expenses	347,200	326,271	20,929
Depreciation	<u>520,000</u>	<u>440,250</u>	<u>79,750</u>
Total operating expenses	<u>2,976,800</u>	<u>2,627,129</u>	<u>349,671</u>
Operating income	<u>209,100</u>	<u>294,263</u>	<u>85,163</u>
<b>Non-operating revenue (expenses):</b>			
Rents from water property	78,000	42,113	(35,887)
Interest income and other	-	1,576	1,576
Interest expense on long-term debt	<u>(196,000)</u>	<u>(156,035)</u>	<u>39,965</u>
Total non-operating revenue (expenses)	<u>(118,000)</u>	<u>(112,346)</u>	<u>5,654</u>
Income before capital contributions	<u>91,100</u>	<u>181,917</u>	<u>90,817</u>
<b>Capital contributions</b>			
Grant proceeds	50,000	-	(50,000)
Customer contributions	<u>50,000</u>	<u>69,890</u>	<u>19,890</u>
Total capital contributions	<u>100,000</u>	<u>69,890</u>	<u>(30,110)</u>
Increase/(Decrease) in net position	<u>\$ 191,100</u>	<u>\$ 251,807</u>	<u>\$ 60,707</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statement of Revenues, Expenses and**  
**Change in Net Position – Budget and Actual**  
**For the Year Ended December 31, 2016**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating revenues:</b>			
Water sales-residential	\$ 2,780,000	\$ 2,690,859	\$ (89,141)
Water sales-commercial	180,000	189,892	9,892
Miscellaneous service revenues	<u>123,500</u>	<u>104,694</u>	<u>(18,806)</u>
Total operating revenues	<u>3,083,500</u>	<u>2,985,445</u>	<u>(98,055)</u>
<b>Operating expenses:</b>			
Salaries and wages-employees	310,000	310,065	(65)
Purchased water	1,168,000	1,223,194	(55,194)
Materials and supplies	428,200	185,570	242,630
Contractual services	151,500	143,448	8,052
Other expenses	312,500	336,631	(24,131)
Depreciation	<u>520,000</u>	<u>563,573</u>	<u>(43,573)</u>
Total operating expenses	<u>2,890,200</u>	<u>2,762,481</u>	<u>127,719</u>
Operating income	<u>193,300</u>	<u>222,964</u>	<u>29,664</u>
<b>Non-operating revenue (expenses):</b>			
Rents from water property	73,800	63,749	(10,051)
Interest income and other	-	4,120	4,120
Interest expense on long-term debt	<u>(199,000)</u>	<u>(157,704)</u>	<u>41,296</u>
Total non-operating revenue (expenses)	<u>(125,200)</u>	<u>(89,835)</u>	<u>35,365</u>
Income before capital contributions	<u>68,100</u>	<u>133,129</u>	<u>65,029</u>
<b>Capital contributions</b>			
Grant proceeds	50,000	101,378	51,378
Customer contributions	<u>50,000</u>	<u>62,860</u>	<u>12,860</u>
Total capital contributions	<u>100,000</u>	<u>164,238</u>	<u>64,238</u>
Increase/(Decrease) in net position	<u>\$ 168,100</u>	<u>\$ 297,367</u>	<u>\$ 129,267</u>



Cindy L. Greer, CPA • L. Joe Rutledge, CPA • Jonathan W. Belcher, CPA • R. Brent Billingsley, CPA  
Skip R. Campbell, CPA • Ryan A. Mosier, CPA • Jenna B. Glass, CPA • Sharon Waggener, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Western Pulaski County Water District  
Somerset, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Pulaski County Water District, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated April 23, 2018.

**Internal Control Over Financial Reporting**

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

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

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



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

April 23, 2018

