

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

PRINCIPAL OFFICERS

| | |
|-----------------|---------------------------|
| Ben Everly | Chairman |
| Mark Whitehouse | Vice Chairman |
| Eddie Embry Sr. | Secretary and Treasurer |
| Mark Newman | Commissioner |
| Reid Haire | Commissioner |
| Cletus Greer | Commissioner |
| Jay Raymond | Commissioner |
| Walter Beasley | General Superintendent |

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

| | Page |
|---|-------|
| Independent Auditor's Report | 1-2 |
| Management's Discussion and Analysis | 3-6 |
| <u>Basic Financial Statements</u> | |
| Statements of Net Position | 7-8 |
| Statements of Revenues, Expenses, and Changes in Net Position | 9-10 |
| Statements of Cash Flows | 11-12 |
| Notes to Financial Statements | 13-28 |
| <u>Supplemental Information</u> | |
| Schedule of Proportionate Share of the Net Pension Liability | 29 |
| Schedule of Pension Contributions | 30 |
| Schedule of Changes in Benefits and Assumptions | 31 |
| <u>Other Reports</u> | |
| 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 | 32-33 |



DAVID GILBERT CPA
VERONICA GILBERT CPA

GILBERT & GILBERT, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

501 W. MAIN STREET, SUITE A
GLASGOW, KY 42141

(270) 651-3013 - (270) 651-9734
FAX (270) 651-5484

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

INDEPENDENT AUDITOR'S REPORT

Commissioners of the Ohio County Water District
Hartford, KY 42347

We have audited the accompanying statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows of Ohio County Water District as of 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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of 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 Ohio County Water District as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Ohio County Water District, Kentucky's basic financial statements. The supplemental information on pages 29 through 31 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information has been subjected to the auditing procedures applied in the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the supplemental information on pages 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 August 17, 2018 on our consideration of the Ohio 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 the 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 Ohio County Water District's internal control over financial reporting and compliance.

Gilbert & Gilbert CPA's

Gilbert & Gilbert CPAs

August 17, 2018

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

Our discussion and analysis of the Ohio County Water District financial performance provides an overview of the District's financial activities for the year ended December 31, 2017 and 2016. to account for changes resulting from the information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ending December 31, 2017, total operating and non-operating revenues (including capital contributions) totaled \$4,297,262 and expenses amounted to \$4,352,174 creating an decrease in net position of \$54,912. At year end, net position totaled \$20,550,479 of which \$17,737,208 (net of related debt) was invested in capital assets and \$846,319 was restricted for debt service. This left a net amount of \$1,966,952 of unrestricted assets.

For the year ending December 31, 2016, total operating and non-operating revenues (including capital contributions) totaled \$3,899,619 and expenses amounted to \$4,176,526 creating an decrease in net position of \$276,907. At year end, net position totaled \$20,605,391 of which \$17,359,573 (net of related debt) was invested in capital assets and \$948,062 was restricted for debt service and construction. This left a net amount of \$2,297,756 of unrestricted assets.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis and the Basic Financial Statements. 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 Ohio County Water District report information of Ohio 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 Statements of Net Position includes all of Ohio County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Ohio County Water District's creditors (liabilities). It also provides the basis of evaluation of the capital structure of Ohio County Water District and assessing the liquidity and financial flexibility of Ohio County Water District.

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

The final required financial statement is the Statements 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.

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

Financial Analysis of Ohio County Water District

Ohio County Water District
Statements of Net Position-Summary
December 31,

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Assets: | | |
| Total Current Assets | \$ 1,003,652 | \$ 1,355,034 |
| Total Restricted Assets | 3,742,554 | 3,635,574 |
| Net Capital Assets | <u>30,266.452</u> | <u>30,284.713</u> |
| Total Assets | \$ <u>35,012.658</u> | \$ <u>35,275.321</u> |
| Deferred Outflows: | | |
| Total Deferred Outflows | <u>599,704</u> | <u>399,422</u> |
| Liabilities: | | |
| Total Current Liabilities | \$ 979,549 | \$ 1,139,837 |
| Total Long-Term Liabilities | <u>13,881,298</u> | <u>13,891,275</u> |
| Total Liabilities | \$ <u>14,860,847</u> | \$ <u>15,031,112</u> |
| Deferred Inflows: | | |
| Total Deferred Inflows | <u>201,036</u> | <u>38,240</u> |
| Net Position: | | |
| Invested in capital assets, net of related debt | \$ 17,737,208 | \$ 17,359,573 |
| Restricted for debt service | 846,319 | 948,062 |
| Unrestricted | <u>1,966.952</u> | <u>2,297.756</u> |
| Total Net Position | \$ <u>20,550.479</u> | \$ <u>20,605.391</u> |

The largest portion (86%, and 84% per year respectively) of the Water District's net position is reflected by investment in capital assets, less any related debt used to acquire those assets still outstanding. The Water District uses these capital assets to provide services to consumers; consequently, these assets are not available for future spending.

Restricted for debt service (4%, and 5%, per year respectively) represents resources that are subject to external restrictions on how they may be used.

The balance (10%, and 11%, per year respectively) of unrestricted net position may be used to meet the Water District's ongoing obligations to consumers and creditors.

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

Ohio County Water District
Statements of Operations-Summary
For the Year Ended December 31,

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Total operating revenues | \$ 3,682,328 | \$ 3,637,275 |
| Total operating expenses | <u>3,955,982</u> | <u>3,778,917</u> |
| Operating Income | (273,654) | (141,642) |
| Total non-operating revenue (expenses) | <u>(308,766)</u> | <u>(330,529)</u> |
| Income before capital contributions | (582,420) | (472,171) |
| Capital contributed | <u>527,508</u> | <u>195,264</u> |
| Change in net position | (54,912) | (276,907) |
| Beginning of year | <u>20,605,391</u> | <u>20,882,298</u> |
| End of year | \$ <u>20,550,479</u> | \$ <u>20,605,391</u> |

For the calendar year 2017, net position decreased by \$54,912 and consisted of operating income of \$(273,654), net non-operating expenses of \$308,766 and capital contributions of \$527,508.

For the calendar year 2016, net position decreased by \$276,907 and consisted of operating income of \$(141,642), net non-operating expenses of \$330,529 and capital contributions of \$195,264.

Capital Asset Changes

At December 31, 2017 the Water District had invested \$30,266,452 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$18,261 from the previous year. The net decrease consisted of additions to capital assets of \$1,123,006 and depreciation expense of \$1,141,267. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

At December 31, 2016 the Water District had invested \$30,284,713 in capital assets net of accumulated depreciation. This amount represents a net increase of \$264,482 from the previous year. The net increase consisted of additions to capital assets of \$1,421,115 less costs of assets sold and abandoned \$20,819 and less depreciation expense of \$1,135,814. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues as well as loan proceeds from KIA.

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

Debt Administration

At December 31, 2017, the Water District had \$8,361,500 revenue bonds outstanding and \$4,178,040 of loans payable outstanding, This represents a decrease of \$209,000 and an increase of \$13,676 from the prior year balances of \$9,011,000 and \$3,594,703 respectively.

At December 31, 2016, the Water District had \$8,570,500 revenue bonds outstanding and \$4,164,364 of loans payable outstanding, This represents an decrease, of \$210,000 in bonds and a increase of \$764,663 in loans from the prior year balances of \$8,780,500 and \$3,399,701 respectively.

Other Matters

Ohio County Water District serves approximately 6,000 residential and commercial customers in Breckenridge, Daviess, Grayson , and Ohio Counties, including the Cities of Beaver Dam and Fordsville.

In 2006, the Water District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant is \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equalled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the Water District providing \$2,000,000. The Ohio County Fiscal Court paid \$550,000 towards the amount of the project they agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bear a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

During 2015, the remaining balance of the 2003 bond series were paid off with proceeds from the 2015 bond series.

During 2015, the District implemented GASB No. 68, Accounting and Financial Reporting for Pensions, This Standard requires cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows, and outflows of resources based upon their proportionate share of the collective amounts for all the governments in the plan, therefore, included in long term liabilities is a net pension liability of \$1,548,342 for 2016 and \$1,177,927 for 2015.

During 2016, the District placed in service phase 1 of a water system upgrade costing approximately \$1,000,000. A revolving loan was obtained from KIA for the project. The loan will be repaid over a period not to exceed twenty years.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Ohio County Water District's finances and to demonstrate Ohio County Water District's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact the Ohio County Water District at 124 E. Washington Street, Hartford, KY 42347.

BASIC FINANCIAL STATEMENTS

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 436,229 | \$ 737,450 |
| Accounts Receivable-Customers | 270,531 | 285,817 |
| Accounts Receivable-Other | 4,143 | 38,757 |
| Prepaid Expenses | 15,902 | 24,165 |
| Unbilled Revenue Receivable | 270,468 | 263,043 |
| Interest Receivable | <u>6,379</u> | <u>5,802</u> |
| Total Current Assets | <u>1,003,652</u> | <u>1,355,034</u> |
| RESTRICTED ASSETS | | |
| Debt Service Funds | | |
| Cash and Cash Equivalents | 533,227 | 511,249 |
| Construction Fund | | |
| Cash and Cash Equivalent | 6,296 | 14,688 |
| Depreciation Fund | | |
| Cash and Cash Equivalents | 759,570 | 755,784 |
| Investments | 1,961,674 | 1,931,728 |
| Debt Service Reserve Funds | | |
| Investments | 99,665 | 98,186 |
| Replacement Reserve Funds | | |
| Cash and Cash Equivalents | <u>382,122</u> | <u>323,939</u> |
| Total Restricted Assets | <u>3,742,554</u> | <u>3,635,574</u> |
| PROPERTY PLANT AND EQUIPMENT AND INTANGIBLES, at cost less Accumulated Depreciation | <u>30,266,452</u> | <u>30,284,713</u> |
| TOTAL ASSETS | \$ <u>35,012,658</u> | \$ <u>35,275,321</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows-Pensions | <u>599,704</u> | <u>399,422</u> |

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF NET POSITION-CONTINUED
DECEMBER 31, 2017 AND 2016

NET POSITION AND LIABILITIES

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 96,260 | \$ 205,271 |
| Construction Payable | 0 | 98,834 |
| Accrued Payroll Taxes | 7,889 | 7,910 |
| Sales Tax Payable | 2,265 | 1,479 |
| Utility Tax Payable | 14,264 | 14,579 |
| Accrued Salaries | 38,734 | 33,017 |
| Accrued Interest | 168,695 | 174,276 |
| Current Portion of Long-Term Debt | 470,433 | 407,931 |
| Current Portion of Compensated Absence | 5,738 | 5,738 |
| Accrued Retirement | 18,199 | 14,859 |
| Customers' Deposits | <u>157,072</u> | <u>175,943</u> |
| Total Current Liabilities | <u>979,549</u> | <u>1,139,837</u> |
| LONG-TERM LIABILITIES (net of current portion) | | |
| Loan Payable Kentucky Infrastructure Authority F15-069 | 1,123,219 | 961,620 |
| Loan Payable Kentucky Infrastructure Authority F08-08 | 2,802,888 | 3,003,813 |
| Revenue Bonds Payable Series 91-01 & 91-03p | 7,583,000 | 7,696,500 |
| Revenue Bonds Payable Series 2015 | 560,000 | 665,000 |
| Compensated Absences | 12,240 | 16,000 |
| Net Pension Liability | <u>1,799,951</u> | <u>1,548,342</u> |
| Total Long-Term Debt | <u>13,881,298</u> | <u>13,891,275</u> |
| TOTAL LIABILITIES | <u>14,860,847</u> | <u>15,031,112</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pensions | 196,554 | 32,955 |
| Bond Premium | <u>4,482</u> | <u>5,285</u> |
| | <u>201,036</u> | <u>38,240</u> |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 17,737,208 | 17,359,573 |
| Restricted for Debt Service and Construction | 846,319 | 948,062 |
| Unrestricted | <u>1,966,952</u> | <u>2,297,756</u> |
| TOTAL NET POSITION | <u>\$ 20,550,479</u> | <u>\$ 20,605,391</u> |

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| OPERATING REVENUES | | |
| Water Sales | \$ 3,511,005 | \$ 3,446,001 |
| Miscellaneous Service Revenue | 51,457 | 52,414 |
| Penalties | 69,091 | 70,483 |
| Other Revenues | <u>50,775</u> | <u>68,377</u> |
| Total Operating Revenue | 3,682,328 | 3,637,275 |
| OPERATING EXPENSES | | |
| Salaries/Wages | 868,412 | 852,375 |
| Payroll Tax Expense | 67,251 | 65,914 |
| Employee Pension/Benefits | 527,752 | 402,616 |
| Utilities | 334,058 | 335,923 |
| Chemicals | 94,245 | 91,775 |
| Materials and Supplies | 102,082 | 216,021 |
| Contractual Services | 570,211 | 444,686 |
| Rental of Building/Real Estate | 1,026 | 1,022 |
| Rental of Equipment | 1,347 | 965 |
| Transportation Expense | 62,853 | 70,318 |
| Insurance | 80,676 | 76,136 |
| Regulatory Commission Expense | 7,272 | 6,996 |
| Bad Debts | 19,445 | 13,686 |
| Telephone Expense | 20,938 | 16,904 |
| Miscellaneous | 58,500 | 49,434 |
| Depreciation | <u>1,139,914</u> | <u>1,134,146</u> |
| Total Operating Expenses | 3,955,982 | 3,778,917 |
| OPERATING INCOME | <u>(273,654)</u> | <u>(141,642)</u> |
| NON OPERATING REVENUES (EXPENSES) | | |
| Interest Income | 43,565 | 41,471 |
| Gain on Sale of Equipment | 32,261 | 12,409 |
| Interest Expense | (385,308) | (383,390) |
| KIA Service Fees | (5,379) | 0 |
| Non Utility Income | 11,600 | 13,200 |
| Non Utility Expenses | <u>(5,505)</u> | <u>(14,219)</u> |
| Total Other Income (Expenses) | <u>(308,766)</u> | <u>(330,529)</u> |
| INCOME BEFORE CONTRIBUTED CAPITAL | <u>\$ (582,420)</u> | <u>\$ (472,171)</u> |

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENT OF REVENUES , EXPENSES, AND CHANGES IN NET POSITION (Continued)
YEARS ENDED DECEMBER 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| INCOME BEFORE CONTRIBUTED CAPITAL(Carried Forward) | \$ (582,420) | \$ (472,171) |
| CONTRIBUTED CAPITAL | | |
| Grant Income | 324,672 | 0 |
| Capital Contributions from Customers | 50,035 | 32,561 |
| Capital Contributions from Other Government | <u>152,801</u> | <u>162,703</u> |
| Total Contributed Capital | <u>527,508</u> | <u>195,264</u> |
| CHANGE IN NET POSITION | (54,912) | (276,907) |
| NET POSITION- JANUARY 1 | <u>20,605,391</u> | <u>20,882,298</u> |
| NET POSITION- DECEMBER 31 | \$ <u>20,550,479</u> | \$ <u>20,605,391</u> |

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 3,724,803 | \$ 3,692,311 |
| Cash payments to suppliers | (1,356,983) | (1,098,001) |
| Cash payments to employees | <u>(1,457,668)</u> | <u>(1,331,519)</u> |
| Net cash provided by operating activities | 910,152 | 1,349,074 |
| Cash flows from noncapital financing activities: | | |
| Proceeds from noncapital financing | <u>0</u> | <u>0</u> |
| Net proceeds from noncapital financing | 0 | 0 |
| Cash flows from capital and related financing activities: | | |
| Proceeds from note | 237,780 | 961,620 |
| Proceeds from equipment sales | 32,261 | 33,228 |
| Proceeds from capital contribution | 527,508 | 195,264 |
| Principal payments | (433,104) | (406,957) |
| Interest on long term debt, net of amount capitalized | (386,222) | (383,427) |
| Other interest | (4,667) | 0 |
| Net capital expenditure | <u>(1,123,006)</u> | <u>(1,421,115)</u> |
| Net cash used in capital and related financing activities | (1,149,450) | (1,021,387) |
| Cash flows from investing activities: | | |
| Transfers to Investments | (31,426) | 0 |
| Interest Income | 42,988 | 41,471 |
| Other non utility income/expense | <u>2,069</u> | <u>(1,019)</u> |
| Net cash flows investing activities | <u>13,631</u> | <u>40,452</u> |
| Net increase (decrease) in cash and cash equivalents | (225,667) | 368,139 |
| Cash and cash equivalents at beginning of year | <u>2,343,111</u> | <u>1,974,972</u> |
| Cash and cash equivalents at end of year. | \$ <u>2,117,444</u> | \$ <u>2,343,111</u> |

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENT OF CASH FLOWS-CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|--------------------------|----------------------------|
| Reconciliation of operating income to net cash | | |
| Provided by operating activities: | | |
| Operating Income | \$ (273,654) | \$ (141,642) |
| Adjustments to reconcile net income to net cash | | |
| Provided by operating activities: | | |
| Depreciation | 1,139,914 | 1,134,146 |
| Change in assets and liabilities: | | |
| (Increase) decrease in customers receivable | 15,286 | (19,904) |
| (Increase) decrease in other receivable | 34,614 | 68,067 |
| (Increase) decrease in prepaid expenses | 8,263 | 5,259 |
| (Increase) decrease in unbilled revenue receivable | (7,425) | 6,061 |
| Increase (decrease) in accounts payable | (109,011) | 143,257 |
| Increase (decrease) in construction payable | (98,834) | 92,495 |
| Increase (decrease) in accrued taxes and retirement | 3,790 | (2,210) |
| Increase (decrease) in accrued salaries | 5,717 | 1,698 |
| Increase (decrease) in compensated absences | (3,760) | (10,102) |
| Increase (decrease) in customer deposits | (18,871) | 15,146 |
| Increase (decrease) in net pension liability & deferred inflows and outflows | <u>214,123</u> | <u>86,283</u> |
| Net cash provided (used) by operating activities | \$ <u><u>910,152</u></u> | \$ <u><u>1,349,074</u></u> |

The notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

(a) The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or prepaid amounts have been utilized.

(b) The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America 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 of reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to depreciation expense and accumulated depreciation.

(c) The Ohio County Water District was created April 2, 1962, under KRS Chapter 74. The governing board currently consists of seven (7) commissioners; five (5) commissioners are appointed by the Ohio County Fiscal Court and two (2) commissioners are appointed by the Daviess County Fiscal Court. The District is a special district formed for the purpose of providing water to customers within its service area.

(d) Management has determined that all accounts receivable carried on the balance sheet at December 31, 2017 and 2016 are collectable and therefore no allowance for uncollectible accounts is necessary.

(e) Capital assets are defined as assets with an individual cost of more than \$2,500. Capital assets are reported at cost or the fair market value at the time of contribution to the utility. Major outlays are capitalized as projects are constructed. Interest is capitalized on fixed assets constructed with borrowed funds. The amount of interest to be capitalized is calculated by offsetting interest expense from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Operating supplies are expensed at time of purchase. Unused pipe and related materials at the end of each year to be used in future construction are recorded at cost as a fixed asset. Depreciation is computed on the straight-line method over the following useful lives:

| | Years |
|---------------------------------------|-------|
| Organization expense | 40 |
| Cost of water contracts | 40 |
| Land improvements | 10-20 |
| Pumping treatment plant and equipment | 5-50 |
| Transmission and distribution system | 5-50 |
| Other equipment | 5-10 |

(f) Consistent with rate-making treatment, rate case expense is being amortized over a 3 year period beginning with the year the new rates are implemented.

(g) Water sold but unmetered at the date of the financial statements is estimated based on subsequent billing and included in current assets.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1- SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

(h) For purposes of the statement of cash flows, Ohio County Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents.

(i) The District accrues a liability for vested vacation and personal leave pay.

(j) When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as needed.

(k) Operating revenues are revenues generated by providing services to customers and include water sales, services revenue, penalties and other miscellaneous operating revenues. Nonoperating revenues are located in the statement of revenues and expenses after operating income (operating revenues less operating expenses). Nonoperating income includes interest income and contributed capital.

(l) Net position represents the difference between assets and liabilities. Net Position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. Unrestricted net position is the component of net position that does not meet definition of restricted or invested in capital assets net of related debt.

(m) Management has evaluated subsequent events through August 17, 2018 the date the financial statements were available to be issued.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2- CASH AND INVESTMENTS

Cash and Investments:

Under Kentucky Revised Statute 66.480 the Ohio County Water District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national banks.

The Water District deposits include cash in checking and savings accounts. The Water District's investments are all certificate of deposits.

The Ohio County Water District deposits and investments at December 31, 2017 were covered by federal depository insurance or by collateral held by the custodial banks. The book balance of the Ohio County Water District's deposits and investments was \$4,178,168 and the bank balance were \$4,286,497. This does not include petty cash of \$615.

NOTE 3- CUSTODIAL CREDIT RISKS-DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the Ohio County Water District's deposits may not be returned to it. The Ohio County Water District does not have a deposit policy for custodial credit risk. As of December 31, 2017, \$3,531,053 of the Ohio County Water District's cash and investments balances of \$4,286,497 was exposed to custodial credit risk, detailed as follows:

Uninsured, however, secured by collateral held by pledging banks \$3,531,053

NOTE 4- RESTRICTED ASSETS

(a) Debt Service Funds:

| The Debt Service Funds at December 31, consisted of the following: | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Debt Service Fund KIA | | |
| Debt Service Fund Revenue Bond 2003 | 59,704 | 60,581 |
| Debt Service Fund Rural Development Loan | 357,038 | 353,716 |
| Debt Service Fund KIA | 82,000 | 81,362 |
| Debt Service Fund KIA 2 | 29,041 | 10,146 |
| Debt Service Water & Sewer Refunds Account | <u>5,444</u> | <u>5,444</u> |
| | \$ <u>533,227</u> | \$ <u>511,249</u> |

The funds are required under current debt instruments. Funds are restricted for paying interest and principle of the respective long-term debt.

At year end December 31, 2017, the Debt Service Fund Revenue Bonds and Debt Service Funds KIA was invested in savings accounts with an interest rate of .50% . At December 31, 2016, Debt Service Fund Revenue Bonds and Debt Service Funds-KIA was invested in savings accounts with an interest rate of .50%. The investments are stated at cost, which approximates market value.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4- RESTRICTED ASSETS (CONTINUED)

(b) Construction Funds:

The Construction Funds at December 31, consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|-----------------|------------------|
| Cash and Cash Equivalent: | | |
| Baizetown Project | \$ 0 | \$ 4,844 |
| N. Ohio Co travel. Line Phase 1 | <u>6,296</u> | <u>9,844</u> |
| | <u>\$ 6,296</u> | <u>\$ 14,688</u> |

Construction Funds are restricted to paying the costs associated with each respective project.

(c) Depreciation Fund:

The Depreciation Fund was created and continued under previous Revenue Bond Ordinances. Funds are restricted for paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements and the cost of constructing additions and improvements to the system. The fund shall also be available for transfer to the debt service fund in order to avoid default in connection with any outstanding debt payable or to purchase outstanding debt in advance of maturity. At December 31, 2017, the fund consisted of two certificate of deposit totaling \$1,961,674. The investments are stated at cost, which approximates market value.

| | <u>2017</u> | <u>2016</u> |
|---------------------------|---------------------|---------------------|
| Cash and Cash Equivalents | \$ 759,570 | \$ 755,784 |
| Investments | <u>1,961,674</u> | <u>1,931,728</u> |
| | <u>\$ 2,721,244</u> | <u>\$ 2,687,512</u> |

The Debt Service Reserve Funds at December 31, consists of the following:

(c) Debt Service Reserve Funds:

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| Debt Service Reserve Fund Revenue Bonds Series 2003/2015 | \$ <u>99,665</u> | \$ <u>98,186</u> |
| Debt Service Reserve Fund Revenue Bonds Series 2003: | <u>99,665</u> | <u>98,186</u> |

The Debt Service Reserve Fund Revenue Bonds Series 2003 was established by a resolution adopted by the Commission of the Water District dated October 28, 2003. The amounts on deposit in the reserve fund shall be withdrawn and used to prevent a default in making payments of principal and interest on the bonds if the amount in the debt service fund is not sufficient to make such payments. In the event of any withdrawal, the District shall restore such deficiencies monthly into the reserve fund 1/36 of the amount required to be accumulated in the reserve funds until the total required debt service reserve shall have been restored. The required reserve balance is \$136,105.19. Any revenues in excess of the required debt service reserve shall be transferred to the debt service fund.

The Debt Service Reserve Fund Series 2003 consists of a two (2)-year certificate of deposit maturing November 14, 2017, with an interest rate of 1.50%. The investment is stated at cost, which approximates market value.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4- RESTRICTED ASSETS (CONTINUED)

(d) Replacement Reserve Fund

Required by the new funding sources, the replacement reserve fund consist of two savings accounts.

| | <u>2017</u> | <u>2016</u> |
|----------------------|-------------------|-------------------|
| RD Replacement Fund | \$ 286,503 | \$ 241,268 |
| KIA Replacement Fund | <u>95,620</u> | <u>82,671</u> |
| | \$ <u>382,123</u> | \$ <u>323,939</u> |

NOTE 5- CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2017 follows:

| | Balance 01-01-17 | Increases | Decreases | Balance 12-31-17 |
|---|---------------------|------------------|----------------|---------------------|
| Capital assets, not being depreciated: | | | | |
| Land and land rights | <u>506,225</u> | <u>4,195</u> | <u>0</u> | <u>510,420</u> |
| Capital assets being depreciated: | | | | |
| Organization expense | 8,245 | 0 | 0 | 8,245 |
| Cost of water contracts | 1,000 | 0 | 0 | 1,000 |
| Land improvements | 8,580,962 | 7,240 | 0 | 8,588,202 |
| Pumping and treatment plant and equipment | 7,517,012 | 50,399 | 0 | 7,567,411 |
| Transmission and distribution system | 25,497,169 | 876,203 | 0 | 26,373,372 |
| Other equipment | <u>1,179,878</u> | <u>90,320</u> | <u>31,400</u> | <u>1,238,798</u> |
| Total Capital Assets Being Depreciated | <u>42,784,266</u> | <u>1,024,162</u> | <u>31,400</u> | <u>43,777,028</u> |
| Total Capital Assets | <u>43,290,491</u> | <u>1,028,357</u> | <u>31,400</u> | <u>44,287,448</u> |
| Less: Accumulated Depreciation | | | | |
| Organization expense | 8,245 | 0 | 0 | 8,245 |
| Cost of water contracts | 1,000 | 0 | 0 | 1,000 |
| Land improvements | 1,371,278 | 236,766 | 0 | 1,608,044 |
| Pumping and treatment plant and equipment | 1,973,798 | 283,199 | 0 | 2,256,997 |
| Transmission and distribution system | 9,116,778 | 548,050 | 0 | 9,664,828 |
| Other equipment | <u>719,554</u> | <u>73,252</u> | <u>31,400</u> | <u>761,406</u> |
| Total Accumulated Depreciation | <u>13,190,653</u> | <u>1,141,267</u> | <u>0</u> | <u>14,300,520</u> |
| Construction in process | <u>184,875</u> | <u>1,074,959</u> | <u>980,310</u> | <u>279,524</u> |
| Net Capital Assets | <u>30,284,713</u> | <u>962,049</u> | <u>980,310</u> | <u>30,266,452</u> |

Construction in process at December 31, 2017 and 2016 were as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------|----------------|----------------|
| Materials and Supplies | 262,024 | 130,563 |
| Water District Projects | <u>17,500</u> | <u>54,312</u> |
| | <u>279,524</u> | <u>184,875</u> |

Depreciation expense of \$1,135,814 is reported in the statement of revenue and expenses in two separate amounts; as depreciation expense in operating expenses of \$1,134,146 and \$1,668 is included in other income and expense, non utility expenses.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5- CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2016 follows:

| | Balance 01-01-16 | Increases | Decreases | Balance 12-31-16 |
|---|---------------------|------------------|----------------|---------------------|
| Capital assets, not being depreciated: | | | | |
| Land and land rights | <u>460,945</u> | <u>45,280</u> | <u>0</u> | <u>506,225</u> |
| Capital assets being depreciated: | | | | |
| Organization expense | 8,245 | 0 | 0 | 8,245 |
| Cost of water contracts | 1,000 | 0 | 0 | 1,000 |
| Land improvements | 8,574,462 | 6,500 | 0 | 8,580,962 |
| Pumping and treatment plant and equipment | 7,453,102 | 95,849 | 31,939 | 7,517,012 |
| Transmission and distribution system | 24,239,338 | 1,282,117 | 24,286 | 25,497,169 |
| Other equipment | <u>1,139,212</u> | <u>62,396</u> | <u>21,730</u> | <u>1,179,878</u> |
| Total Capital Assets Being Depreciated | <u>41,415,359</u> | <u>1,446,862</u> | <u>77,955</u> | <u>42,784,266</u> |
| Total Capital Assets | <u>41,876,304</u> | <u>1,492,142</u> | <u>77,955</u> | <u>43,290,491</u> |
| Less: Accumulated Depreciation | | | | |
| Organization expense | 8,245 | 0 | 0 | 8,245 |
| Cost of water contracts | 1,000 | 0 | 0 | 1,000 |
| Land improvements | 1,134,841 | 236,437 | 0 | 1,371,278 |
| Pumping and treatment plant and equipment | 1,676,268 | 317,850 | 20,320 | 1,973,798 |
| Transmission and distribution system | 8,601,954 | 539,110 | 24,286 | 9,116,778 |
| Other equipment | <u>689,667</u> | <u>42,417</u> | <u>12,530</u> | <u>719,554</u> |
| Total Accumulated Depreciation | <u>12,111,975</u> | <u>1,135,814</u> | <u>57,136</u> | <u>13,190,653</u> |
| Construction in process | <u>255,902</u> | <u>184,875</u> | <u>255,902</u> | <u>184,875</u> |
| Net Capital Assets | <u>30,020,231</u> | <u>541,203</u> | <u>276,721</u> | <u>30,284,713</u> |

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6- CONSTRUCTION PAYABLE

Construction Payable are payables related to construction projects. Payable balances at the end of 2017 and 2016 were insignificant.

NOTE 7- LONG TERM DEBT

| Balance | Balance <u>1-01-2017</u> | <u>Increases</u> | <u>Decreases</u> | Balance <u>12-31-2017</u> |
|----------------------------|-----------------------------|-------------------|-------------------|------------------------------|
| Loan Payable KIA F08-08 | \$ 3,202,744 | \$ 0 | \$ 198,931 | \$ 3,003,813 |
| Revenue Bonds Series 91-01 | 6,663,000 | 0 | 93,000 | 6,570,000 |
| Revenue Bonds Series 91-03 | 1,142,500 | 0 | 16,000 | 1,126,500 |
| Revenue Bonds Series 2015 | 765,000 | 0 | 100,000 | 665,000 |
| Loan Payable KIA F15-069 | <u>961,620</u> | <u>237,780</u> | <u>25,173</u> | <u>1,174,227</u> |
| | <u>\$12,734,864</u> | <u>\$ 237,780</u> | <u>\$ 433,104</u> | <u>\$12,539,540</u> |

The long-term debt at December 31, 2017, consisted of the following:

(a) Loan Payable Kentucky Infrastructure Authority (KIA) F08-08:

In 2011 the Water District began drawing loan proceeds from KIA for the construction of the new water treatment plant. The amount, not to exceed \$5,000,000, was completed for \$3,742,957. Repayment of the loan commenced after the project was completed and requires semi annual payments on the dates established by the Schedule of Payments. The loan bears an interest rate of 1% and an administrative fee of .25% over a term of 20 years.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7. LONG TERM DEBT (CONTINUED)

(b) Series 91-01 and 91-03

The Water District issued \$8,200,000 of Waterworks Revenue Bonds to provide construction funds for the new water treatment plant. The total amount of bonds issued are made up of two separate Series of bonds, Series A \$7,000,000 and Series B \$1,200,000. payments are due January 1st of each year for a term of 40 years. Both Bonds bare an interest rate of 4.125%. The Bonds are fully registered and insured as to the principal and interest.

(c) Series 2015:

The Water District issued \$960,000 of Waterworks Revenue Bonds Series 2015, to provide for the refunding of the outstanding Series 2003 bonds. The bonds are fully registered and insured as to principal and interest. Interest is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2015. Principal is payable annually on August 1. The bonds are not subject to optional redemption prior to their stated maturities.

(d) Loan Payable Kentucky Infrastructure Authority (KIA) F15-069:

In 2015, the Water District was approved for a revolving loan not to exceed \$1,630,000 to replace approximately 17,500 linear feet of eight and ten inch lines with a sixteen inch line. The loan is to be repaid commencing one year after completion of the project over a period not to exceed twenty years. It is anticipated that any portion of the loan not currently used may be drawn down or transferred to another project. Principle and Interest is payable biannually.

A schedule of the principal due on loans and bonds at December 31, 2017 is as follows:

| Dec 31, | KIA | KIA | Revenue Bonds | | | Total |
|----------------------|------------------|------------------|----------------|------------------|------------------|-------------------|
| | Loan F08-08 | Loan F15-069 | Series 2015 | Series 91-01 | Series 91-03 | |
| 2018 | 200,925 | 51,008 | 105,000 | 97,000 | 16,500 | 470,433 |
| 2019 | 202,940 | 51,905 | 110,000 | 101,000 | 17,500 | 483,345 |
| 2020 | 204,974 | 52,817 | 110,000 | 105,000 | 18,000 | 490,791 |
| 2021 | 207,029 | 53,745 | 110,000 | 109,500 | 19,000 | 499,274 |
| 2022 | 209,105 | 54,690 | 115,000 | 114,000 | 19,500 | 512,295 |
| 2023-2027 | 1,077,390 | 288,212 | 115,000 | 644,000 | 110,500 | 2,235,102 |
| 2028-2032 | 901,450 | 314,447 | 0 | 789,500 | 135,500 | 2,140,897 |
| 2033-2037 | 0 | 307,403 | 0 | 966,000 | 166,000 | 1,439,403 |
| 2038-2042 | 0 | 0 | 0 | 1,181,500 | 203,000 | 1,384,500 |
| 2043-2047 | 0 | 0 | 0 | 1,447,000 | 247,500 | 1,694,500 |
| 2048-2050 | 0 | 0 | 0 | 1,015,500 | 173,500 | 1,189,000 |
| | <u>3,003,813</u> | <u>1,174,227</u> | <u>665,000</u> | <u>6,570,000</u> | <u>1,126,500</u> | <u>12,539,540</u> |
| Less Current Portion | <u>200,925</u> | <u>51,008</u> | <u>105,000</u> | <u>97,000</u> | <u>16,500</u> | <u>470,433</u> |
| Long-Term Portion | <u>2,802,888</u> | <u>1,123,219</u> | <u>560,000</u> | <u>6,473,000</u> | <u>1,110,000</u> | <u>12,069,107</u> |

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 -LONG-TERM DEBT (CONTINUED)

All long-term (loans and bonds) are secured solely by a pledge of and payable from the gross revenues derived from the operations of the District. Each obligation ranks on a parity basis as to security and source of payment with the other obligations.

Annual Debt Service Requirements:

The annual requirements to amortize the total long-term debt as of December 31, 2017, including interest payments are as follows:

| Year Ended <u>Dec 31</u> | KIA | | Revenue Bonds | Revenue Bonds | | <u>Total</u> |
|--------------------------------|-----------------------|-------------------------|-----------------------|------------------------|------------------------|-------------------|
| | Loan <u>F08-08</u> | Bonds <u>F15-069</u> | Series <u>2015</u> | Series <u>91-01</u> | Series <u>91-03</u> | |
| 2018 | 230,463 | 71,335 | 118,875 | 366,012 | 62,628 | 849,313 |
| 2019 | 230,462 | 71,335 | 121,775 | 365,928 | 62,927 | 852,427 |
| 2020 | 230,463 | 71,335 | 119,575 | 365,680 | 62,694 | 849,747 |
| 2021 | 230,462 | 71,335 | 117,355 | 365,755 | 62,931 | 847,858 |
| 2022 | 230,463 | 71,335 | 120,175 | 365,646 | 62,637 | 850,256 |
| 2023-2027 | 1,152,313 | 356,675 | 117,588 | 1,826,225 | 313,151 | 3,765,952 |
| 2028-2032 | 921,850 | 356,675 | 0 | 1,824,349 | 312,865 | 3,415,739 |
| 2033-2037 | 0 | 321,008 | 0 | 1,820,411 | 312,376 | 2,453,795 |
| 2038-2042 | 0 | 0 | 0 | 1,815,193 | 311,426 | 2,126,619 |
| 2043-2047 | 0 | 0 | 0 | 1,810,474 | 309,633 | 2,120,107 |
| 2048-2050 | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,079,324</u> | <u>184,379</u> | <u>1,263,703</u> |
| | <u>3,226,476</u> | <u>1,391,033</u> | <u>715,363</u> | <u>12,004,997</u> | <u>2,057,647</u> | <u>19,395,516</u> |

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8-PENSION PLAN

Ohio County Water District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description-CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions- For the year ended December 31, 2017, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2017, the District contributed 18.68% of each employee's wages from January to June, 2017 and 19.18% of each employee's wages from July to December, 2017, both of which are equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For nonhazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8-PENSION PLAN (CONTINUED)

The District contributed \$154,422 for the year ended December 31, 2017, or 100% of the required contribution. The contribution was allocated \$115,962 to the CERS pension fund and \$38,460 to the CERS insurance fund.

Pension Liabilities- Expense, Deferred Outflows of Resources and Deferred Inflows of Resources. At December 31, 2017, the District reported a liability of \$1,799,951 or 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 was 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 entities, actuarially determined. At June 30, 2017 the District's proportion was .030751% while at June 30, 2016, the District's proportion was .031447%

For the year ended December 31, 2017, the District recognized pension expense of \$330,888. 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 results | \$ 2,233 | \$ 45,690 |
| Changes of assumptions | 332,140 | 0 |
| Difference between projected and actual earnings on plan investments | 142,554 | 120,291 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 63,508 | 30,573 |
| Company contributions subsequent to the measurement date | <u>59,269</u> | <u>0</u> |
| Total | <u>\$ 599,704</u> | <u>\$ 196,554</u> |

The \$59,269 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending December 31, 2018. Other Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| Year ending | |
|-------------------|----------|
| December 31, 2017 | 163,712 |
| December 31, 2018 | 146,787 |
| December 31, 2019 | 56,494 |
| December 31, 2020 | (23,112) |

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Actuarial Assumptions- The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.05%, average, including inflation |
| Investment Rate of return | 6.25%, net of 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 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 actuarial assumptions used in the June 30, 2017 valuation were based on an actuarial valuation date of June 30, 2016.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions 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 assumption 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 time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--|------------------------------|---|
| Combined Equity | 44% | 5.40% |
| Combined Fixed Income Real Return (Diversified Inflation Strategies) | 19% | 1.50% |
| Real Estate | 10% | 3.50% |
| Absolute Return (Diversified Hedge Funds) | 5% | 4.50% |
| Private Equity | 10% | 4.25% |
| Cash Equivalent | 10% | 8.50% |
| | <u>2%</u> | -0.25% |
| Total | 100% | |

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8- PENSION PLAN (CONTINUED)

Discount Rate- The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

Sensitivity- of the Company's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate-the following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

| | <u>Discount Rate</u> | Company's Proportionate Share of Net Pension Liability |
|-----------------------|----------------------|--|
| 1% decrease | 5.25% | \$ 2,270,253 |
| Current discount rate | 6.25% | \$ 1,799,951 |
| 1% increase | 7.25% | \$ 1,406,652 |

Payable- to the Pension Plan. At December 31, 2017, the District reported a payable of \$12,697 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2017. The payable includes both the pension and insurance contribution allocation.

NOTE 9 - RISK MANAGEMENT

The Ohio County Water 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 Ohio County Water District also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10- MAJOR CONSTRUCTION PROJECTS

In June, 1995, a hydraulic analysis of the District was completed pursuant to an order issued by the Public Service Commission (PSC). Numerous deficiencies throughout the system were identified. As a result, the District's Commission approved a long-range plan to construct needed improvements to the water system. The total cost of the proposed construction is approximately \$10,000,000 to be done in three series.

Series I (1998) Construction Project:

On January 6, 1998, the District submitted an application to the PSC for approval of the Series I Construction Project and the approval to issue revenue bonds in the amount of \$4,000,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. On August 19, 1998, the PSC approved the application. The Series I Construction Project was substantially completed in 1999.

The Series I Construction Project consisted of approximately 44 miles of distribution mains (approximately 14 miles in unserved areas of the District), two 500,000-gallon storage tanks, tie-in to the Perdue Farms, Inc. water treatment plant, pumping and water treatment equipment, an office at Perdue Farms, Inc., and radio telemetry equipment for monitoring and controlling the system. Pursuant to an agreement dated August 13, 1998, the Ohio County Fiscal Court assigned its contract rights to 1,000,000 gallons of water per day from Perdue Farms, Inc. to the Ohio County Water District

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10- MAJOR CONSTRUCTION PROJECTS-Continued

Series II (2000) Construction Project:

On April 12, 2000, the District submitted an application to the PSC for approval of the Series II Construction Project and the approval to issue revenue bonds in the amount of \$4,035,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on July 14, 2000. The construction project was substantially completed in 2002.

The Series II Construction Project consists of approximately 25 miles of distribution mains, an additional 500,000-gallon storage tank, and radio telemetry to the new tank. The distribution mains will extend mains into unserved areas and is designed to reinforce the existing system and eliminate deficiencies.

Series III (2003) Construction Project:

On April 7, 2003, the District submitted an application to the PSC for approval of the Series III Construction Project and the approval to issue revenue bonds in the amount of \$1,890,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on May 15, 2003.

The series III Construction Project consists of approximately 34 miles of water mains in Ohio and Daviess Counties that will provide service to approximately 65 new customers and enhance the quality and reliability of service to approximately 248 customers.

The project was substantially completed in 2004.

Fordsville Water Main:

On January 27, 2003, the Ohio County Water District signed a Contract for Water Service with the City of Fordsville, a municipal corporation of the Sixth Class, whereby the City agrees to purchase from the Water District, upon connection of the Water District water main line to the Fordsville Water System, the City's total water requirements to meet the demands of all of the City's water customers, and the Water District agrees to furnish and sell to Fordsville treated water necessary to satisfy the City's needs at a wholesale rate.

In order to supply the City of Fordsville, a water main, approximately 8.5 miles, was constructed to connect the City to the Water District's existing distribution system. The construction completed in 2004 was financed with a \$500,000 Community Development Block Grant to the City of Fordville for the benefit of the Ohio County Water District, a \$241,500 Coal Severance Grant and approximately \$58,500 provided by the Water District.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10- MAJOR CONSTRUCTION PROJECTS-CONTINUED

Purchase of Rockport Water System:

On May 1, 2003, the Water District entered into a contract with the City of Rockport to purchase the City's water system assets and customers, excluding, the City's existing water plant and intake structure. The System purchased consists of approximately 14 miles of water mains, a 138,000-gallon standpipe, and approximately 250 customers. In consideration for the purchase of the system, the Water District assumed the liability for full payment of the outstanding indebtedness of the City to Kentucky Municipal Corporation and the Green River Area Development District. The Water District paid the loans in 2004 totaling \$345,825.00. Additional costs related to the project, including costs to connect the Water District system to the Rockport system, were approximately \$190,000. A Coal Severance Grant of \$232,260 is being used to finance the project, with the Water District providing the remaining funds. The Water District began supplying the customers on May 14, 2004.

New Water Treatment Plant:

In December 2006, the Water District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant is \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equalled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the Water District providing \$2,000,000. The Ohio County Fiscal Court has paid \$550,000 towards the amount of the project they agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bear a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

Breckenridge County Project:

In December 2006, the water district accepted assignment of a \$496,000 grant from Breckenridge county Fiscal Court, the grantee accumulated cost of the the project as of December 31, 2006 equalled \$58,790.

New Administrative Building:

In March 2007, the District purchased the Flener Building for \$148,000. This building has been renovated to become the administration office.

Phase 1 Water Mains:

In 2015 the Water District began the water main upgrade project replacing approximately 17,500 linear feet of eight and ten inch lines with a sixteen inch line. The total cost of the project is not to exceed \$1,630,000. This will eliminate one pump station resulting in an annually savings of \$40,000 and will improve reliability of the system. Funding of the project is through Kentucky Infrastructure Authority loan.

SUPPLEMENTAL INFORMATION

OHIO COUNTY WATER DISTRICT
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|--------------|-------------|
| District's proportion of the net pension liability | .030751 | .031447 |
| District's proportionate share of the net pension liability (asset) | \$ 1,799,951 | \$1,548,342 |
| District's covered employee payroll | \$ 815,778 | \$ 810,128 |
| District's share of the net pension liability (asset) as a percentage of its covered employee payroll | 220.64% | 191.12% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.30% | 55.50% |

Notes:

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

The amounts presented for each fiscal year were determined (measured) as of June 30, of the fiscal year presented.

OHIO COUNTY WATER DISTRICT
 SCHEDULE OF PENSION CONTRIBUTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|------------------|------------------|
| Contractually required employer contributions | \$154,422 | \$146,894 |
| Contributions relative to contractually required employer contributions | <u>\$154,422</u> | <u>\$146,894</u> |
| Contributions excess (deficiency) | <u>\$ 0</u> | <u>\$ 0</u> |
| | | |
| District's covered employee payroll | \$815,778 | \$810,128 |
| Employer contributions as a percentage of covered-employee payroll | 18.93% | 18.13% |

Notes:

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

Contractually required employer contributions exclude the portion of contributions paid to the CERS, but allocated to the insurance fund of the CERS. The above contributions only include those contributed allocated directly to the CERS pension fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year-end of the District.

OHIO COUNTY WATER DISTRICT
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

County Employee Retirement System

Changes of benefit terms-None.

Changes in assumptions-The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%, which also resulted in a .095% decrease in the salary increase assumptions at all years of service.
- The payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB 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 (setback one year for females). For disabled members the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four 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.
- assumed rates of retirement, withdrawals, and disability were updated to more accurately reflect experience.

OTHER REPORTS



DAVID GILBERT CPA
VERONICA GILBERT CPA

GILBERT & GILBERT, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

501 W. MAIN STREET, SUITE A
GLASGOW, KY 42141

(270) 651-3013 - (270) 651-9734
FAX (270) 651-5484

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

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 Commissioners
Ohio County Water District

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio County Water District as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the Ohio County Water District's basic financial statements, and have issued our report thereon dated August 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ohio 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 the Ohio County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ohio 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

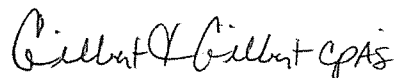
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ohio 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, and is intended solely for the use of management and members of the board.

Gilbert & Gilbert CPA's



Glasgow, KY
August 17, 2018