

CANNONSBURG WATER DISTRICT  
Cannonsburg, Kentucky

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
for the year ended December 31, 2018

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Cannonsburg Water District  
Cannonsburg, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Cannonsburg Water District as of and for the year ended December 31, 2018, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cannonsburg Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

### ***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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

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

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 and historical context. Our opinion on the basic financial statements is not affected by this missing information.

The Schedule of the Proportionate Share of Net Pension Liability, the Schedule of Employer's Contributions – Net Pension Liability, Schedule of the Proportionate Share of Net OPEB Liability and the Schedule of Employer's Contributions – Net OPEB Liability 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. 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 an opinion on the financial statements that collectively comprise the Cannonsburg Water District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Comparative Statement of Revenues and Expenses is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 comparative statement of revenues and expenses is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2019, on our consideration of the Cannonsburg 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 the Cannonsburg Water District's internal control over financial reporting and compliance.

*John T. Lane & Associates LLC*

Mount Sterling, Kentucky

May 20, 2019

This report contains 25 pages.



Cannonsburg Water District  
Statement of Net Position  
Proprietary Fund  
December 31, 2018

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ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 275,904
Cash and cash equivalents - restricted	1,242,084
Accounts receivable - net of allowance for doubtful accounts	288,688
Inventory	86,341
Prepaid expenses	<u>20,837</u>
Total Current Assets	<u>1,913,854</u>
Noncurrent Assets	
Capital assets: (note 1)	
Plant, equipment and lines	9,048,099
Less accumulated depreciation	<u>(4,296,402)</u>
Total Noncurrent Assets	<u>4,751,697</u>
Deferred Outflows of Resources	<u>276,990</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 6,942,541</u>

LIABILITIES

Current Liabilities	
Accrued liabilities	\$ 189,676
Accrued interest	12,880
Deposits payable	14,276
Bonds/notes payable	<u>41,000</u>
Total Current Liabilities	<u>257,832</u>
Noncurrent Liabilities	
Net pension liability	957,700
Net OPEB liability	279,194
Bonds/notes payable	<u>1,826,000</u>
Total Noncurrent Liabilities	<u>3,062,894</u>
Deferred Inflows of Resources	<u>164,652</u>
Total Liabilities and Deferred Inflows of Resources	<u>3,485,378</u>

NET POSITION

Net investment in capital assets	2,884,697
Restricted	1,227,808
Unrestricted	<u>(655,342)</u>
Total Net Position	<u>\$ 3,457,163</u>

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

Cannonsburg Water District  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Fund  
For the year ended December 31, 2018

Operating Revenues	
Water sales	\$ 2,380,811
Penalties & charges	52,335
Other income	<u>9,883</u>
Total Operating Revenues	<u>2,443,029</u>
Operating Expenses	
Purchased water	1,107,636
Salaries & wages	439,233
Payroll taxes	35,676
Contractual services	54,962
Employee insurance	210,242
Retirement	188,022
Other insurance	46,201
Operations, maintenance, repairs & supplies	6,114
Utilities	71,397
Telephone	5,868
Materials & supplies	70,875
Fuel	36,828
Water testing	8,370
Depreciation	190,955
Other billing expenses	6,000
Other taxes	5,833
Miscellaneous expenses	<u>90,135</u>
Total Operating Expenses	<u>2,574,347</u>
Operating Income (Loss)	<u>(131,318)</u>
Nonoperating Revenues (Expenses)	
Tap fees	14,300
Interest income	6,534
Interest expense	<u>(54,563)</u>
Net Nonoperating Revenues (Expenses)	<u>(33,729)</u>
Change in Net Position	(165,047)
Total Net Position - beginning	3,874,330
Prior period adjustment	<u>(252,120)</u>
Total Net Position - ending	<u>\$ 3,457,163</u>

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

Cannonsburg Water District  
Statement of Cash Flows  
Proprietary Fund  
December 31, 2018

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 2,489,619
Cash paid to employees	(439,233)
Cash paid for general and administrative expenses	<u>(1,859,878)</u>
Net Cash provided / (used) by operating activities	<u>190,508</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	6,534
Customer deposits	<u>1,624</u>
Net Cash provided / (used) by investing activities	<u>8,158</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Tap fees	14,300
Bond/note payments - principal	(40,000)
Bond/note payments - interest	<u>(54,563)</u>
Net Cash provided / (used) in capital and financing activities	<u>(80,263)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	118,403
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,399,585</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 1,517,988</u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (131,318)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(increase) / decrease in prepaid expenses	6,161
(increase) / decrease in inventory	(24,470)
(increase) / decrease in accounts receivable	46,590
depreciation	190,955
increase / (decrease) in pension expense due to GASB 68/75	112,885
increase / (decrease) in accounts payable	<u>(10,295)</u>
Net cash provided / (used) by operating activities	<u>\$ 190,508</u>

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

CANNONSBURG WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

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The Cannonsburg Water District is a water utility which services areas of Boyd County. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1961. The District began operations in 1956. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Cannonsburg Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account. The required balance in the account at December 31, 2018 was \$94,249; the actual balance was \$487,085.

Enterprise Funds

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are operating grants and tenant rental revenue. Operating expenses of the District include the cost of producing the revenue and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segmented into net investment in capital assets, restricted and unrestricted components. 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 they are needed.

Basis of Accounting

The records of the District are maintained, and the budgetary process is based on the accrual method of accounting.

**Inventory**

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are valued at lower of cost or market and recorded using the FIFO method.

**Deposits**

The District considers all highly liquid investments with a maturity date of twelve months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents. At December 31, 2018, the carrying amount of the District's deposits was \$1,517,988 and the bank balance was \$1,502,648. Of the bank balance 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

<b>Summary of Cash &amp; Cash Equivalents</b>			
<b>Description</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
Deposits in Transit	\$ 19,320	\$ -	\$ 19,320
CNB Operations & Maintenance	166,005	-	166,005
CNB Water Revenue	36,028	-	36,028
CNB Bond & Interest	-	487,085	487,085
CNB New Customer	27,814	-	27,814
CNB PSC Surcharge	-	520,655	520,655
CNB Bond & Interest CD	-	66,732	66,732
CNB Line Replacement & Extension CD	-	76,998	76,998
CNB Depreciation CD	-	90,614	90,614
Regions Bank	25,737	-	25,737
Petty cash	1,000	-	1,000
<b>Totals</b>	<b>\$ 275,904</b>	<b>\$ 1,242,084</b>	<b>\$ 1,517,988</b>

**Capital Assets**

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Water lines, tanks	40-50 years
Equipment	5-10 years
Computers	3 years
Meters	15 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

**Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

**Accounts Receivable**

The receivable reflected in the statements in the amount of \$288,688 are net of allowance for uncollectible in the amount of \$15,724.

**Use of Estimates**

The preparation of 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 at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.



**Pensions**

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

**Note 2 – Defined Benefit Pension Plan**

**General Information About the Pension Plan**

*Plan description* - Regular, full-time, employees of the Water District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky Retirement System issues a publicly available financial report that can be obtained on their website.

*Benefits provided* - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Membership in the CERS Non-hazardous Pension Fund consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Membership Status

Inactive plan members currently receiving benefits	56,629
Inactive plan members entitled to but not yet receiving benefits	81,608
Active plan members	<u>84,435</u>
Total plan members	222,672

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the Legislature.

*Contributions* - Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The Water District's contractually required contribution rate for the year ended December 31, 2018 was 19.18%/21.48 (14.48%/16.22% pension; 4.70%/5.26% insurance) of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Water District were \$75,137 for the year ended December 31, 2018. The contribution was allocated \$56,731 to the pension fund and \$18,406 to the insurance fund.

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

At December 31, 2018, the reported a liability of \$957,700 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water District's portion of the net pension liability



was based on the Water District's proportionate share of retirement contributions for the fiscal year ended June 30, 2018. At June 30, 2018 the Water District's proportionate share was 0.015725%.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. For the year ended December 31, 2018, the Water District recognized pension expense of \$153,648. At December 31, 2018, the Water 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>
Differences between expected and actual Liability Experience	\$ 31,238	14,019
Changes in assumptions	93,595	-0-
Differences between expected and actual Investment Experience	44,534	56,017
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,710	35,748
Contributions subsequent to the measurement date	<u>29,941</u>	<u>-0-</u>
Total	\$ 207,018	\$ 105,784

\$29,941 reported as deferred outflows of resources related to pensions resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. The remaining amount of \$71,293 reported as the net effect of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2019	\$ 64,043
December 31, 2020	25,672
December 31, 2021	(13,282)
December 31, 2022	(5,140)
December 31, 2023	-0-
Thereafter	<u>-0-</u>
Total	\$ 71,293

*Actuarial methods & assumptions:* For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Salary Increases	3.05%
Investment Rate of Return	6.25% for CERS Non-hazardous, and hazardous, and KERS Hazardous, 5.25% for KERS Non-hazardous

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average

pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

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 for 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.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00% average
Investment Rate of Return	7.50% for CERS Non-hazardous, CERS Hazardous, and KERS Hazardous, 6.75% for KERS Non-hazardous

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 for 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*Discount rate* - The projection of cash flows used to determine the discount rate of 5.25% for the KERS Non-hazardous, and 6.25% for KERS Hazardous, CERS Non-hazardous, and CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

*Sensitivity of the Water District's proportionate share of the net pension liability to changes in the discount rate* - The following presents the net pension liability of the System, calculated using the discount rate of percent, as well as what the System's 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 for non-hazardous:

	1% Decrease <u>5.25%</u>	Current Discount Rate <u>6.25%</u>	1% Increase <u>7.25%</u>
Proportionate share of the net pension liability	\$ 1,205,646	\$ 957,700	\$ 749,966

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

**Note 3 - Other Postemployment Benefits Plan (OPEB)**

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

*Plan Description* - The Kentucky Retirement Systems' (KRS) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) 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 health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

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

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	0.0% for KERS non-hazardous and hazardous, and 2.0% for CERS non-hazardous and hazardous
Salary Increases	3.05%, average
Investment Rate of Return	6.25% Healthcare
Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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 for 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.

*Long-Term Expected Rate of Return* - The long-term expected rate of return was determined by using a building-block method in which best- estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*Discount Rate* - The projection of cash flows used to determine the discount rate of 5.86% for KERS Non-hazardous, 5.88% for KERS Hazardous, 5.85% for CERS Non-hazardous, and 5.97% for CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

*Use of Estimates in the Preparation of the Schedules* - The preparation of the schedules in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal Amortization
Method	Level Percent of Pay Remaining
Amortization Period	27 Years, Closed Payroll Growth
Rate	4.00%

Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increases	4.00%, average
Investment Rate of Return	7.50% Healthcare Trend Rates
Pre - 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post - 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

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 for 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.

*Implicit Subsidy* - The fully-insured premiums KRS pays for the KERS, CERS and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after the measurement date. The Water District's implicit subsidy for the year ended December 31, 2018 was \$1,238.

*Contributions* - Participating employers are 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 preceding 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 bases adopted by the Board.

For the fiscal year ended December 31, 2018, participating employers contributed 4.73%/5.26% of each employee's covered payroll to the Kentucky Retirement Systems' Insurance Fund, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Employees hired after September 1, 2008 are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits, and the 1% contribution to the 401(h) account is non-refundable.

The Water District contributed \$18,406 for the year ended December 31, 2018 of the required contribution to the insurance fund. Total contributions to the insurance fund, including the implicit subsidy for the year ended June 30, 2017 were \$21,650. For additional information regarding contributions, please refer to the Defined Benefit Pension Plan footnote.

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* - At December 31, 2018, the Water District reported a liability of \$279,194 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled-forward to June 30, 2018 using generally accepted actuarial principles. The Water District's proportion of the net OPEB liability was determined using the Water District's actual contributions for the year ended June 30, 2018. This method is expected to be reflective of the Water District's long-term contribution effort. For the year ended December 31, 2018, the Water District's proportion was 0.015725% which is equal to its proportion measured as of June 30, 2018.

For the year ended December 31, 2018, the Water District recognized OPEB expense of \$34,374. At December 31, 2018, the Water 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>
Differences between expected and actual liability experience	\$ -0-	\$ 32,536
Effects of changes in assumptions	55,759	645
Differences between projected and actual earnings on plan investments	-0-	19,231
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	6,453
Contributions subsequent to the measurement date + implicit subsidy	<u>14,213</u>	<u>-0-</u>
Total	\$ 69,972	\$ 58,865

\$14,213 reported of deferred outflows of resources resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as the net effect of deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2019	\$ (251)
December 31, 2020	(251)
December 31, 2021	(251)
December 31, 2022	3,484
December 31, 2023	(3,668)
Thereafter	<u>(2,169)</u>
Total	\$ (3,106)

*Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate* – The following presents the proportionate share of the net OPEB liability calculated using the single discount rate of 5.84%, as well as what the Water District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (4.84 percent) or 1% higher (6.84 percent) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	4.84%	\$ 362,629
Current discount rate	5.84%	\$ 279,194
1% increase	6.84%	\$ 208,123

*Sensitivity of the Water District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following presents the proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1% lower or 1% higher than the current rates:

	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	\$ 207,863
Current healthcare cost trend rate	\$ 279,194
1% increase	\$ 363,273

**Note 4 – Notes/Bonds Payable**

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan/bond payments from future revenues. At December 31, 2018, three separate loans/bonds had outstanding balances. Details of each of these issues are summarized as follows:



Note 4a

Lender – Kentucky Rural Water Finance Corporation (KRWFC)

Original loan amount - \$416,000

Balance of loan – \$222,000

Rate – 4.15-5.15%

Principal due January 01

Interest due January 01 and July 01

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Schedule of future payments:

	Principal	Interest	Trustee Fees	Total Payment
2019	\$ 17,000	\$ 10,150	\$ 250	\$ 27,400
2020	19,000	10,155	250	29,405
2021	23,000	9,038	250	32,288
2022	40,000	7,416	250	47,666
2023	42,000	5,305	250	47,555
2024-2025	81,000	4,018	500	85,518
Total	\$ 222,000	\$ 46,082	\$ 1,750	\$ 269,832

Note 4b

Lender – United States Department of Agriculture (USDA)

Original loan amount - \$1,668,000

Balance of loan – \$1,645,000

Rate – 2.50%

Principal payments due each year on January 01

Interest payments due each year on January 01

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Schedule of future payments:

	Principal	Interest	Total Payment
2019	\$ 24,000	\$ 41,125	\$ 65,125
2020	24,000	40,525	64,525
2021	25,000	39,925	64,925
2022	26,000	39,300	65,300
2023	27,000	38,650	65,650
2024-2028	150,000	182,625	332,625
2029-2033	175,000	162,625	337,625
2034-2038	205,000	139,350	344,350
2039-2043	239,000	112,050	351,050
2044-2048	281,000	80,150	361,150
2049-2053	330,000	42,625	372,625
2054-2055	139,000	5,125	144,125
Total	\$ 1,645,000	\$ 924,075	\$ 2,569,075

The following is a summary of changes in long-term obligations for the year:

	Outstanding 1/1/2018	Issued	Retired	Outstanding 12/31/2018	Due Within One Year
USDA	\$ 1,668,000	\$ -	\$ 23,000	\$ 1,645,000	\$ 24,000
KRWFC	239,000	-	17,000	222,000	17,000
Total	\$ 1,907,000	\$ -	\$ 40,000	\$ 1,867,000	\$ 41,000

Total interest paid during the year on long-term debt totaled \$54,563.

**Note 5 – Risk Management**

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

**Note 6 - Changes in Capital Assets**

The following is a summary of changes in the capital assets for the year:

	Balance		Balance	
	1/1/2018	Additions/ Transfers	Deletions	12/31/2018
Land, non-depreciable	\$ 20,810	\$ -	\$ -	\$ 20,810
Utility plant and equipment	9,027,289	-	-	9,027,289
Construction in process, non-depreciable	-	-	-	-
	<u>\$ 9,048,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,048,099</u>
Accumulated depreciation	<u>\$ 4,105,447</u>	<u>\$ 190,955</u>	<u>\$ -</u>	<u>\$ 4,296,402</u>
Capital assets, net of accumulated depreciation	<u>\$ 4,942,652</u>	<u>\$ (190,955)</u>	<u>\$ -</u>	<u>\$ 4,751,697</u>

**Note 7 - Revenue Bonds – Bond & Sinking Fund Requirements**

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account. The required balance in the account at December 31, 2018 was \$94,249; the actual balance was \$470,469.

**Note 8 - Restricted Cash**

Restricted cash is composed of the following:

Depreciation reserve fund	\$ 90,614
Bond & interest	553,817
Surcharge PSC	520,655
Line replacement	<u>76,998</u>
	\$ 1,242,084

**Note 9 – Contingencies**

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2018. Areas of noncompliance, if any, as a result of examinations would be included as a part of the "Findings and Responses section of this report.

**Note 10 – Prior Period Adjustment**

Adjustments were made in accordance with GASBs 68 and 75. Two prior period adjustments were made in the amounts of \$(279,129) and \$27,009 netting to \$(252,120):

Debit   (Credit) Account	Amount	Amount	Total
Net pension liability	\$ -	\$ (17,425)	\$ (17,425)
Net OPEB liability	(332,491)	53,297	(279,194)
Deferred inflows of resources	(16,908)	(101,002)	(117,910)
Deferred outflows of resources	70,270	(20,746)	49,524
Pension expense (retirement contr.)	-0-	<u>112,885</u>	<u>112,885</u>
Total	\$ (279,129)	\$ 27,009	\$ (252,120)

**Note 11 – Subsequent Events**

The Authority has evaluated subsequent events through May 20, 2019, and that is the date that the financial statements were available to be issued.

Note 12 - Noncurrent Liabilities

Description	Balance,			Balance,		
	01/01/2018	Additions	Subtractions	12/31/2018	Current Portion	Noncurrent Portion
Bonds payable	\$ 1,907,000	\$ -	\$ 40,000	\$ 1,867,000	\$ 41,000	\$ 1,826,000
NPL	940,275	17,425	-	957,700	-	957,700
OPEB	-	279,194	-	279,194	-	279,194
	<u>\$ 2,847,275</u>	<u>\$ 296,619</u>	<u>\$ 40,000</u>	<u>\$ 3,103,894</u>	<u>\$ 41,000</u>	<u>\$ 3,062,894</u>

REQUIRED SUPPLEMENTARY INFORMATION

Cannonsburg Water District  
Schedule of Employer's Proportionate Share of Net Pension Liability  
December 31, 2018

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	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Proportion of the net pension liability (asset)	0.015284%	0.017440%	0.016064%	0.000157%
Proportionate share of the net pension liability (asset)	\$ 496,000	\$ 858,552	\$ 940,275	\$ 957,700
Covered employee payroll	\$ 386,145	\$ 390,679	\$ 391,122	\$ 381,944
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	128.45%	219.76%	240.40%	250.74%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.30%	53.54%

Cannonsburg Water District  
Schedule of Employer's Contributions - Net Pension Liability  
December 31, 2018

	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>
Contractually required contribution	\$ 48,586	\$ 51,494	\$ 57,115	\$ 56,732
Contributions in relation to the contractually required contribution	<u>48,586</u>	<u>51,494</u>	<u>57,115</u>	<u>56,732</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 386,145</u>	<u>\$ 390,679</u>	<u>\$ 401,645</u>	<u>\$ 369,613</u>
Contributions as a percentage of covered employee payroll	12.58%	13.18%	14.22%	15.35%



Cannonsburg Water District  
 Schedule of Employer's Proportionate Share of Net OPEB Liability  
 December 31, 2018

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	<u>6/30/2017</u>	<u>6/30/2018</u>
Proportion of net OPEB liability (asset)	0.000000%	0.015725%
Proportionate share of net OPEB liability (asset)	\$ 322,941	\$ 279,194
Covered employee payroll	\$ 391,122	\$ 381,944
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	82.57%	73.10%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	53.54%

Cannonsburg Water District  
 Schedule of Employer's Contributions - Net OPEB Liability  
 December 31, 2018

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	<u>12/31/2017</u>	<u>12/31/2018</u>
Statutorily required contribution	\$ 18,936	\$ 18,406
Contributions in relation to the statutorily required contribution	<u>18,936</u>	<u>18,406</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 401,645</u>	<u>\$ 369,613</u>
Contributions as a percentage of covered-employee payroll	4.71%	4.98%

Cannonsburg Water District  
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
 For the year ended December 31, 2018

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**Net Pension Liability**

*Method and assumptions used in calculations of actuarially determined contributions:* The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ending 2018, determined as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contributions are below:

- Determined by the actuarial valuation as of: June 30, 2016
- Actuarial cost method: Entry age
- Asset valuation method: 20% of the difference between market value of assets and the expected actuarial value of assets is recognized
  
- Amortization method: Level percent of pay
- Amortization period: 27 years, closed
- Investment return: 7.50%
- Inflation: 3.25%
- Salary increase: 4.00%, average
- Mortality: RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

**Net OPEB Liability**

The actuarially determined contributions rates effective for fiscal year ending 2018 that are documented in the schedule, Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Trend Rate, are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contributions are below:

- Determined by the actuarial valuation as of: June 30, 2016
- Actuarial cost method: Entry Age Normal
- Asset valuation method: 20% of the difference between market value of assets and the expected actuarial value of assets is recognized
  
- Amortization method: Level Percent of Pay
- Amortization period: 27 Years, Closed
- Payroll Growth Rate: 4.00%
- Investment return: 7.50%
- Inflation: 3.25%
- Salary Increase: 4.00%, average
- Mortality: RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) 7.50%
  
- Healthcare Trend Rates
  - Pre-65: Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
  - Post-65: Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

SUPPLEMENTARY INFORMATION

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**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 Commissioners  
Cannonsburg Water District  
Cannonsburg, 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 the Cannonsburg Water District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Cannonsburg Water District's basic financial statements, and have issued our report thereon dated May 20, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Cannonsburg 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cannonsburg Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cannonsburg 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 Cannonsburg 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.

*John T. Lane & Associates LLC*

Mount Sterling, Kentucky

May 20, 2019



Cannonsburg Water District  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Fund  
For the years ended December 31, 2017 & December 31, 2018

	<u>2017</u>	<u>2018</u>
Operating Revenues		
Water sales	\$ 2,347,103	\$ 2,380,811
Penalties & charges	52,583	52,335
Other income	<u>7,573</u>	<u>9,883</u>
 Total Operating Revenues	 <u>2,407,259</u>	 <u>2,443,029</u>
Operating Expenses		
Purchased water	1,130,288	1,107,636
Salaries & wages	433,630	439,233
Payroll taxes	29,812	35,676
Other taxes	-	5,833
Contractual services	27,265	54,962
Employee insurance	212,139	210,242
Retirement	189,573	188,022
Other insurance	50,227	46,201
Operations, maintenance, repairs & supplies	20,556	6,114
Transportation	21,714	-
Utilities	70,671	71,397
Telephone	6,422	5,868
Materials & supplies	123,157	70,875
Fuel	38,372	36,828
Water testing	8,499	8,370
Depreciation	151,146	190,955
Other billing expenses	8,246	6,000
Miscellaneous expenses	<u>71,176</u>	<u>90,135</u>
 Total Operating Expenses	 <u>2,592,893</u>	 <u>2,574,347</u>
 Operating Income (Loss)	 <u>(185,634)</u>	 <u>(131,318)</u>
Nonoperating Revenues (Expenses)		
Capital grants	36,883	-
Tap fees	9,000	14,300
Interest income	3,491	6,534
Interest expense	<u>(54,290)</u>	<u>(54,563)</u>
 Net Nonoperating Revenues (Expenses)	 <u>(4,916)</u>	 <u>(33,729)</u>
 Change in Net Position	 <u>\$ (190,550)</u>	 <u>\$ (165,047)</u>

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

