

MOUNTAIN WATER DISTRICT

REPORT OF AUDIT

DECEMBER 31, 2018

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RICHARD F. PAULMANN, CPA, LLC
301 MOUNT MERCY ROAD
PEWEE VALLEY, KY 40056
Ph: (502) 550-1568
e-mail: Richardpaulmann@twc.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Mountain Water District
Pikeville, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Mountain Water District, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Mountain Water District's basic financial statement 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statement are free from material misstatement.

An audit involves performing procedure to obtain audit evidence about the amounts and disclosures in the financial statements. The procedure selected depends 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 presentations 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, I 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.

I believe that the evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

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

Emphasis of Matter

As discussed in Note 4 to the financial statements, effective years beginning after June 15, 2017, Mountain Water District adopted Governmental Accounting Standards Board No. 75, Accounting and Financial Reporting for Pensions. My Opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial statements in an appropriate operational, economic, or historical context. I 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 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide assurance.

Other Reporting Required by Governmental Auditing Standards

In accordance with Governmental Auditing Standards, I have also issued my report dated September 24, 2019, on my consideration of Mountain Water District's internal control over financial reporting and on 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 my 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 Governmental Auditing Standards in considering Mountain Water District's internal control over financial reporting and compliance.


Richard F. Paulmann CPA, LLC

Pewee Valley, KY

September 24, 2019

MOUNTAIN WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Our discussion and analysis of the Mountain Water (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2018. Please read it in conjunction with the accompanying basic financial statements. It is our intent that this discussion provide all parties interested in the District's financial condition, especially the users of the facilities, a better understanding of the District's operations and financial status.

The District reports its financial statements in a required model format issued by the Governmental Accounting Standards Board.

Financial Highlights

- Net assets decreased this year by \$2,931,445 from operating activities and before capital contributions.
- The District's total long-term debt decreased by \$378,046 from the prior year.
- The District acquired several vehicles through financing.
- The District was able to make the following purchases:
 1. Significant water and sewer line extensions to the outlying areas of Pike County.
 2. Assorted new equipment for treatment plant and distribution system to facilitate daily operations.

Overview of the Financial Statements

The District's basic financial statements include: (1) fund financial statements, and (2) notes to the financial statements. These financial statements present information about business-type activities, which consists principally of the fees the District charges its users to cover all or most of the cost of the services it provides.

Fund Financial Statements

The fund financial statements provide detailed information about the proprietary fund. When the District charges customers for services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the District's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.

MOUNTAIN WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Reporting on the District as a Whole

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statements of Financial Position and the Statement of Revenue, Expenses and Changes in Fund Net Assets report information about the District as a whole and about its activities in a way that helps answer this question.

Our discussion begins with an analysis of overall revenues and expenses and their treatment. A majority of the District's revenue is received from charges for services.

The District's total revenues decreased from a year ago by \$157,372 (1.45%). The decrease was the result of a loss of customers of 1% as well. Total cost of all programs and services (including depreciation) increased by \$1,926,640 (16.5%). Interest expense decreased by \$13,546, due in large part to the refinancing of bonds in 2012 at lower interest rates. This trend is expected to remain approximately the same through the next fiscal year end.

Financial Analysis of the District's Proprietary Fund

At year-end, the District's proprietary fund reported total net assets of \$72,935,140, which is a decrease of \$1,186,669 or (1.6%) from last year.

Capital Assets

As noted above, the District was able to make several capital asset purchases without significant additional debt.

Debt/Advances in Construction

At year-end, the District had various bond/notes payables to various lenders with a combined remaining principal balance of \$10,567,315 to be paid from utility revenues.

As of December 31, 2018, the District received advances for construction towards projects not completed in the amount of \$5,148,216. During 2018, various construction projects were completed allowing the advances for construction from the prior year in the amount of \$3,104,033 to be transferred to capital contributions from government grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

Contacting the District's Financial Management

This financial report is designed to provide our customers, creditors, and other users with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Treasurer, at the Mountain Water District, P. O. Box 3157, Pikeville, KY41502, telephone number (606) 631-9162.

MOUNTAIN WATER DISTRICT
STATEMENT OF FINANCIAL POSITION
,December 31, 2018
(with prior year data for comparison purposes only)

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 709,206	\$ 579,614
Accounts Receivable (Net of Allowance for Delinquencies of \$41,000 in 2018 and \$44,000 in 2017)	1,155,733	1,239,098
Prepaid Expenses	34,598	36,651
Inventory	270,663	186,473
TOTAL CURENT ASSETS	2,170,200	2,041,836
NONCURRENT ASSETS		
Restricted Cash		
Cash-Depreciation Reserve	851,513	851,428
Cash-Construction	294,159	286,943
Cash-Customer Deposits	379,459	354,301
Cash-Recycling Account	5,711	3,589
Cash-Operation and Maintence Reserve	180,108	99,441
Cash-Wastewater Operation and Maintenance Reserve	868,234	867,267
Cash-Sinking Fund	670,983	629,224
TOTAL RESTRICTED CASH	3,250,167	3,092,193
Capital Assets		
Supply & Pumping	3,566,550	3,566,550
Water Treatment Equipment	13,574,780	12,748,517
Transmission & Distributiion	93,065,241	88,971,553
General Plant	4,176,767	4,176,767
Land and Land Rights	567,155	559,455
Sewer Utility Plant	29,368,099	29,368,099
Sewer General Plant	725,012	725,012
Total Capital Assets	145,043,604	140,115,953
Less: Accumulated Depreciation	(62,094,399)	(58,317,342)
Net Capital Assets	82,949,205	81,798,611
Construction in Progress	5,075,368	6,214,134
OTHER ASSETS		
Deposit on Leased Vehicles	625	625
FEMA receivable	260	122,546
Rate Case Cost- Net of Amortization	-	47,758
TOTAL OTHER ASSETS	885	170,929
TOTAL NONCURRENT ASSETS	91,275,625	91,275,867
TOTAL ASSETS	\$ 93,445,825	\$ 93,317,703
DEFERRED OUT FLOW OF RESOURCES		
Deferred Pension Contributions	\$ 2,718,441	\$ 3,236,797
Deferred OPEB	449,662	
TOTAL OUT FLOW RESOURCES	\$ 3,168,103	\$ 3,236,797

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
STATEMENT OF FINANCIAL POSITION (CONTINUED)
,December 31, 2018
(with prior year data for comparison purposes only)

	<u>2018</u>	<u>2017</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable Trade	\$ 224,755	\$ 116,327
Other Accrued Liabilities	72,687	94,201
Accrued Interest	144,516	154,305
Customer Deposits	367,570	338,260
Line of Credit	157,287	134,943
Bonds Payable, Current	75,000	73,000
Notes Payable and Capital Leases, Current	<u>939,257</u>	<u>1,084,029</u>
TOTAL CURRENT LIABILITIES	1,981,072	1,995,065
<u>LONG-TERM LIABILITIES</u>		
Bonds Payable, Long-Term	3,501,500	3,577,500
Notes Payable and Capital		
Net Pension Liability	4,976,997	4,126,991
Net OPEB Liability	1,450,922	
Leases, Long-Term	6,051,558	6,353,604
Advances For Construction	5,148,216	6,071,937
Less - Deferred Financing Cost	<u>(70,800)</u>	<u>(74,241)</u>
TOTAL LONG-TERM LIABILITIES	21,058,393	20,055,791
<u>TOTAL LIABILITIES</u>	<u>23,039,465</u>	<u>22,050,856</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Pension Investment Earnings	364,279	381,835
Deferred OPEB	<u>275,044</u>	<u>-</u>
	<u><u>639,323</u></u>	<u><u>381,835</u></u>
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Debt	72,381,890	70,710,478
Restricted for:		
Construction	294,159	286,943
Depreciation, Maintenance and Replacement- Capital Assets	2,119,237	2,077,782
Customer Deposits	54,308	29,747
Unrestricted (Deficit)	<u>(1,914,454)</u>	<u>1,016,859</u>
<u>TOTAL NET POSITION</u>	<u>72,935,140</u>	<u>74,121,809</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (with prior year data for comparison purposes only)

	<u>2018</u>	<u>2017</u>
<u>OPERATING REVENUE</u>		
Metered Sales-Residential	\$6,863,609	\$7,224,799
Metered Sales-Commercial	585,779	603,748
Sewage Revenue	2,041,292	1,721,969
Metered Sales-Multi-Family	309,536	338,742
Metered Sales-Public Authorities	341,302	305,446
Customer Late Payment Charges	253,210	247,711
Other Water Service Revenue	70,611	173,045
Service Connection Fees	139,190	133,932
Metered Sales-Industrial	53,388	65,997
Fire Protection Revenue	<u>1,200</u>	<u>1,100</u>
<u>TOTAL OPERATING REVENUE</u>	10,659,117	10,816,489
<u>OPERATING EXPENSES</u>		
Depreciation	3,897,004	3,883,536
Water Purchased	1,055,679	1,159,604
Material and Supplies	598,156	569,635
Wages	2,245,368	2,063,742
Contract Service-Accounting	45,500	90,730
Education, Dues and Meetings	59,223	67,258
Employee Benefits	677,572	609,829
Contract Service-Legal Engineering	130,941	131,550
PSC Tax Assessment	21,347	-
Payroll Taxes	174,690	128,700
Retirement Expense	1,950,008	239,476
Settlement Fees	1,951	580
Sewage fees	116,172	128,588
Repairs and Maintenance	1,112,677	1,009,582
Utilities	1,341,020	1,324,396
Telephone Expense	53,343	48,212
Bad debts	54,883	141,170
Advertising	3,830	6,553
Amortization Expense	<u>51,198</u>	<u>60,781</u>
<u>TOTAL OPERATING EXPENSE</u>	<u>13,590,562</u>	<u>11,663,922</u>
<u>OPERATING LOSS</u>	<u>(2,931,445)</u>	<u>(847,433)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Gain On Sale of Assets	25,057	-
Interest Income	16,191	4,816
Interest Expense	<u>(374,508)</u>	<u>(388,054)</u>
<u>TOTAL NON-OPERATING REVENUE (EXPENSES)</u>	<u>(333,260)</u>	<u>(383,238)</u>
<u>LOSS BEFORE CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION</u>	<u>(\$3,264,705)</u>	<u>(\$1,230,671)</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (with prior year data for comparison purposes only)

	2018	2017
<u>CAPITAL CONTRIBUTIONS AND OTHER CHANGES</u>		
<u>IN NET ASSETS</u>		
Capital Contributions from:		
Government and State Grants	\$3,104,033	\$2,774,101
Customers through Tap-on Fees	80,102	222,424
<u>TOTAL CAPITAL CONTRIBUTIONS AND</u>		
<u>OTHER CHANGES IN NET POSITION</u>	3,184,135	2,996,525
<u>CHANGE IN NET POSITION</u>	(80,570)	1,765,854
<u>NET POSITION, BEGINNING OF YEAR</u>	73,015,710	72,355,955
SEE NOTE 3		(1,106,099)
<u>NET POSITION, END OF YEAR</u>	\$ 72,935,140	\$ 73,015,710

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(with prior year data for comparison purposes only)

	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Customers	\$10,745,482	\$10,991,468
Payment to Suppliers	(4,550,517)	(5,086,126)
Payment to Employees	(3,131,486)	(3,942,253)
	3,063,479	1,963,089
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
(Decrease) In Customer Deposits	(25,158)	(15,541)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Proceeds From Tap-On Fees	80,102	222,424
Payments for rate increase		
Government Grants	3,104,033	2,774,101
Advances for Construction	(923,721)	439,322
Purchases of Equipment	(5,047,598)	(3,435,521)
Construction in Progress	1,138,766	(442,388)
Loan Proceeds	515,403	
Principal Payments	(1,249,634)	(977,213)
Interest Payments	(384,297)	(390,230)
Notes Payable Bonds & UMG		(69,000)
Proceeds from Sale of Vehicles	-	-
	(2,766,946)	(1,878,505)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Income	16,191	4,816
<u>NET INCREASE IN CASH AND EQUIVALENTS AND RESTRICTED CASH</u>	287,566	73,859
<u>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR</u>	3,671,807	3,597,948
<u>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR</u>	\$ 3,959,373	\$ 3,671,807

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

"Continued"

(with prior year data for comparison purposes only)

	2018	2017
<u>RECONCILIATION OF OPERATING LOSS</u>		
<u>TO NET CASH PROVIDED BY</u>		
<u>OPERATING ACTIVITIES</u>		
Operating Loss	\$ (2,931,445)	\$ (847,251)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	3,897,004	3,883,536
Amortization	51,198	60,781
Increase (Decrease) in Provision for Uncollectible Accounts	3,000	1,000
Decrease (Increase) In:		
Customer Accounts Receivable	83,365	173,979
Other Accounts Receivable	-	-
Prepaid Expenses	2,053	(22,329)
Net Pension adjustment	1,350,806	
Net OPEB adjustment	585,253	
Inventory	(84,190)	(817)
Increase (Decrease) In:		
Accounts Payable Trade	108,428	(68,173)
Other Accrued Liabilities	(1,993)	(1,217,637)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,063,479	\$ 1,963,089
	\$ -	
NON-CASH CAPITAL AND RELATED FINANCINGS ACTIVITIES		
During the period the District purchased Vehicles in exchange for long term debt.	\$ 122,826	\$ 108,349
During the period the District completed certain construction projects that were transferred to capital assets.	\$ 3,885,710	\$ 3,071,306
Gain on Sale of Assets	\$ -	\$ -

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mountain Water District (“the District”) conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the more significant policies:

A. Organization

Mountain Water District is a political subdivision of the Pike County Fiscal Court, organized under chapter 74 of the Kentucky Revised Statutes. It was formed from a merger of four existing water districts-Marrowbone Water District, Shelby Valley Water District, Pond Creek Water District, and John’s Creek Water District- on June 30, 1986 and at that time assumed all assets and liabilities of the existing water districts.

The territorial limits of Mountain Water District, set by the Pike County Judge/Executive on January 20, 1987, are all of Pike County except; (1) the territory of that portion of the Sandy Valley Water District located in Pike County (2) the water services area of the City of Pikeville, and (3) special financing relationships.

B. Reporting Entity

The District is the basic level of government which has financial accountability and control over all activities related to the District. The District is not included in any other governmental “reporting entity” as defined by GASB pronouncement. The Board of Commissioners have decision making authority, the power to designate management, the ability to influence operations, and the primary accountability for fiscal matters. There are no component units as defined in GASB Statement 14 and 61 which are included in the District’s reporting entity.

C. Basis of Presentation-Funds Accounting

The accounts of the District are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Proprietary Funds/Enterprises Funds

Proprietary funds and Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-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 accountability, capital maintenance, public policy, management control, or other purposes.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when obligations are incurred.

E. Encumbrance Accounting

The District does not use encumbrance accounting. Since effective budgetary control and accountability and cash planning and control can be facilitated without encumbrance accounting, this is not considered departure from generally accepted accounting principles. There were no unperformed contracts in process at year end which otherwise might have resulted in the need to encumber estimated expenditures.

F. Customer Accounts Receivable

Customer accounts receivable are stated at face value, less allowance for uncollectible accounts. Changes in the allowance are charged to operating expenses.

G. Capital Assets

Capital Assets, which included property, plant and equipment, are reported in the fund financial statements at historical cost.

Depreciation is recorded as an allocated expense in the Statement of Revenues, Expenses and Changes in Fund Net Assets with accumulated depreciation reflected in the Statement of Financial Position. Depreciation is computed using straight-line method over the estimated useful lives of the related assets. Estimated useful lives range from 3 to 40 years.

Capital additions improvements and major renewals are capitalized, whereas maintenance, repairs and minor renewals are charged to expenses when they are incurred. In the case of disposals, the assets and related reserves are removed from the accounts and the net amount less any proceeds from disposals, is charged or credited to revenues. Most construction in progress is not capitalized until water runs through the lines.

H. Cash and Cash Equivalents

For purpose of the statement of cash flows, the District considered all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

As of December 31, 2018, cash and cash equivalents restricted cash consisted of the following:

Petty Cash	\$ 320
Cash in Bank	708,886
Restricted Cash	<u>3,250,167</u>
Total	<u>\$ 3,959,373</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Bad Debts

Bad debts are recognized using the reserve method of accounting for uncollectible accounts.

J. Inventory

Inventory is valued at lower of cost or market on a First-In, First-Out Basis. December 31, 2018 and 2017 inventory balances were \$270,663 and 186,473 respectively.

K. Investment Policy

The District's policy is to invest available funds in the following:

1. Obligations of the U.S. and its agencies and Instrumentalities.
2. Obligations and contract for future delivery of purchases of obligations backed by the full faith and credit of the U.S. or a U.S. Government agency, including but not limited to"
 - a) United States Treasury
 - b) Export-Import Bank of the United States.
 - c) USDA-Rural Development
 - d) Government National Mortgage Corporation, and
 - e) Merchant Marine Bonds
3. Obligations of any corporation of the U.S. Government.
4. Certificate of Deposit issued by other interest bearing accounts of any bank or savings and loan institutions which are issued by the Federal Deposit Insurance Corporation or similar entity of which are collateralized, to the extent uninsured, by any obligation permitted by section 41.240(4) of the Kentucky revised statutes.
5. Uncollateralized certificates of deposits issued by any bank or savings and loans institution rated in one of the three highest categories by a national recognized rating agency.
6. Bankers' Acceptance for banks rated in one of three highest categories by a nationally recognized rating agency.
7. Commercial paper rated in the highest categories by a nationally recognized rated agency.
8. Bonds or certified of indebtedness of the Commonwealth of Kentucky and of its agencies or instrumentalities.
9. Securities issued by a state or local government, or any instrumentality or agency thereof, in the U.S. , and rated in one the three highest categories by a nationally recognized rating agency.
10. Shares of mutual funds, which contain certain characteristics.

Limits on investments transactions are limited in amount in one category to 20% of the total funds invested and no investment shall be purchased on a margin basis.

The District is currently invested only in interest bearing accounts of local federal insured financial institutions, including interest bearing checking accounts and certificates.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Leave Policy-Vacation/Leave Policy-Sick Leave

The District allows full-time employees to accrue vacation leave as follows: (a) ten (10) days during the first year of employment. Employees can accrue vacation time up to a maximum of twice the annual entitlement. If an accrual of twice the annual vacation entitlement is attained, additional vacation days do not accrue. Upon termination of employment, an employee shall be paid for all accrued vacation leave.

Employees shall accrue sick leave at the rate of ten (10) days per year. Employees can accrue sick leave up to a maximum of 160 hours, after the maximum is obtained no additional sick leave is accrued. Upon termination, resignation, retirement or voluntary leave, the employee shall not be reimbursed for the accrued leave hours.

As of December 31, 2018 and 2017, the accrued liability for vacation leave was -0- and -0-, respectively.

M. Advertising

The District expenses advertising costs as incurred. Total advertising costs charged to expense for the years ended December 31, 2018 and 2017 are \$3,830 and \$6,553, respectively.

N. Net Position Classifications

In the fund financial statements, Net Position is classified as net assets and displayed in three components.

- Invested in capital assets, net of related debt-Consist of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets-Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets-All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

N. Accounting Policy for Loan Cost

Comparative loan costs are amortized on the straight line method over the remaining life of the loan and A direct deduction from the carrying amount of the debt liability. Amortization for 2018 and 2017 was \$3,441 and charged to amortization expense. Original Deferred Financial Cost \$92,316 both years.

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 2 - PENSION PLAN

Plan description

The District participated in the District Employee Retirement Systems, a cost sharing multiple-employer Public Employee Retirement System, which covers its paid employees who have achieved at least one year, of service credit. For the fiscal year ended December 31, 2018 the District's covered payroll for nonhazardous positions was \$2,081,411. CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS.

That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, 40601, or by calling (502)564-4646 or at <https://kyret.ky.gov>.

Benefits provided

Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions

Funding for CERS is provided by members, who contribute 5% nonhazardous (.006% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 18.68% nonhazardous (14.48% - pension, 4.70% insurance) of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

As of December 31, 2018, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2018. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The District proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2018 .

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 2 - PENSION PLAN (CONTINUED)

For the year ended December 31, 2018, the District recognized pension expense of \$1,736,795 for nonhazardous. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Nonhazardous</u>		
Difference between expected actual experience \$	\$ 162,336	
Changes in assumptions..	486,397	\$ 72,853
Net difference between projected and actual earnings on investments...	231,434...	...291,111
Changes in proportion and differences between District District contributions and proportionate share of contributions	1,562,906	315
District contributions subsequent to The measurement date	<u>275,368</u>	
 TOTAL	 <u>\$ 2,718,441</u>	 <u>.\$364,279</u>

At December 31, 2018, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of \$275,368. These contributions will be recognized as a reduction of the net pension liability during the year ended December 31, 2019.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 2 - PENSION PLAN (CONTINUED)

Year ending December 31:	
2019	\$ 519,698
2020	519,698
2021	519,698
2022	<u>519,698</u>
 TOTAL	 <u>\$ 2,078,793</u>

Actuarial Methods and Assumptions:

Inflation	2.30 percent
Salary increases	3.05% average, including inflation
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

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

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expressed returns, net of pension plan investment expense and inflation) are developed for each major asset class.

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 2 - PENSION PLAN (CONTINUED)

These ranges are 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 by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Long Term Target Allocation	Nominal Rate of Return
Combined Equity	17.5%	4.0%
Non-U.S Equity	17.5%	7.0%
Global Bonds	10.0%	3.0
Fixed Income	17.0%	4.0%
Real Return	10.0%	5.0%
Real Estate	5.0%	7.0%
Absolute Return (Diversified Hedge Funds)	10.0%	5.0%
Private Equity	10.0%	6.5%
Cash Equivalent	<u>3.0%</u>	1.5%
 TOTAL	 <u>100. %</u>	

Discount rate - The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investments earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25%, 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%) or 1 - percentage-point higher (7.25%) than the current rate:

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 2 - PENSION PLAN (CONTINUED)

	Current 1% Decrease <u>(5.25%)</u>	Discount Rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
Mountain Water's Share Of the net pension liability	<u>\$6,265,524</u>	<u>\$4,976,997.</u>	<u>\$3,897,437</u>

Benefits: The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 3 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Contributions: Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District's contractually required contribution rate for the year ended December 31, 2018 was .006% of covered payroll. Contributions to the Insurance Fund from the District were \$112,514 for the year ended December 31, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The District 's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2018. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2018, the District's proportion for the nonhazardous was .082%.

OPEB Liability: For the period ending December 31, 2018, the Board reported a liability of \$1,450,922 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District 's proportion of the net OPEB liability was based on a projection of the District 's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined.

For the year ended December 31, 2018, the District recognized OPEB expense of \$213,213 for nonhazardous in total. The District also reported deferred outflows of recourses and deferred inflows of resources related to pensions as the following:

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 3 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

	Deferred Outflows Of Resources	Deferred Inflows
Nonhazardous Liability Experience	.. \$	169,086
Difference between expected actual experience		
Changes in assumptions	\$ 289,771	3,352
Net difference between projected and actual earnings on investments		99,940
Changes in proportion and differences between District contributions and proportionate share of contributions	...152,277.....	2,666
District contributions subsequent to The measurement date	<u>\$ 7,614</u>	<u> </u>
TOTAL	<u>\$ 449,662..</u>	<u>\$275,044</u>

Net OPEB Liability: The District 's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 3 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (CONTINUED)

Actuarial Assumptions and Methods

Total pension liability for CERS was determined by actuarial valuation as of December 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Salary Increases	3.05 percent, average, including inflation
Investment Rate of Return	6.25 percent, net of pension plan investment expense, including inflation

For 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 the healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 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 the margin will be reviewed again, when the next experience investigation is conducted.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 3 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (CONTINUED)

asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover 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 real rates of return for each major class are summarized in the table on the following page.

	<u>Target Allocation</u>	Long Term Nominal Rate of Return
Combined Equity	17.5%	4.0%
Non-U.S Equity	17.5%	7.0%
Global Bonds	10.0%	3.0
Fixed Income	17.0%	4.0%
Real Return	10.0%	5.0%
Real Estate	5.0%	7.0%
Absolute Return (Diversified Hedge Funds)	10.0%	5.0%
Private Equity	10.0%	6.5%
Cash Equivalent	<u>3.0%</u>	1.5%
TOTAL	<u>100. %</u>	

Discount Rate

The discount rates used to measure the total net OPEB liability were 5.84% nonhazardous. 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

MOUNTAIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(CONTINUED)

NOTE 3 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (CONTINUED)

actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 year as of June 30, 2018).

Sensitivity of the Board's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the net OPEB liability calculated using the discount rates of 5.84%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower, (4.84%), or 1 percentage point higher, (6.84%), than the current rate:

	<u>1% Decrease</u> <u>(4.85%)</u>	<u>Discount Rate</u> <u>(5.85%)</u>	<u>1% Increase</u> <u>(6.85%)</u>
Mountain Water District's Share			
Of the net			
pension liability	<u>\$1,844,516</u>	<u>\$1,450,922</u>	<u>\$1,081,580</u>

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

4. PRIOR PERIOD ADJUSTMENT

Mountain Water District adopted Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans, replaces Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions and No. 57, OPEB Measurements by Agent Employers and Multiple Employers Plans. It Establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits (“OPEB”).

The following contains the reconciliation for the adjustments made to the December 31, 2018 Net Position for the required implementation of GASB 75 to conform to the current year presentation for comparative purposes.

Net Position December 31, 2017	\$74,121,909
Implementation of GASB 75 CERS Net OPEB Liability	(1,555,761)
Deferred Outflows – CERS Contributions Made During year Ended December 31, 2017	<u>449,662</u>
Net Position Restated December 31, 2017	<u>\$73,015,710</u>

5. CUSTOMER DEPOSIT FUND

Deposits required from customers when they sign up for the water service are deposited into the customer deposit escrow account. When services are terminated or a customer has paid in a timely fashion, a refund of the deposit plus interest is given after a year of water service. Customer deposits as of December 31, 2018 and December 31, 2017 were \$367,570 and \$338,260, respectively, and are currently held in escrow.

6. COMMITMENTS AND CONTINGENCIES

The District has been committed to several construction projects that have not been either started or completed as of the date of this report.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

7. RECLASSIFICATIONS

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform with presentation in the current year financial statements.

8. SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 24, 2019 the date the financial statements were available to be issued

The District's attorney reported a potential claim for property damage due to slide, for which litigation has not yet been filed. A settlement is being negotiated, but not yet completed. Coverage was denied by Mountain Water District insurance carrier. Estimated range for this is between \$150,000 and \$200,000.

9. RESTRICTED ASSETS AND RESERVE NET ASSETS

- Each of the proprietary funds has a portion of its net assets restricted in connection with assets restricted in uses, such as bond interest and redemption, depreciation, and customer deposits. Restricted net assets includes excess of restricted cash over liabilities payable from restricted cash.

10. DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2018, the carrying amount of the District's deposits with financial institutions was \$3,959,373. The Bank balance is collateralized as follows:

Amount insured by FDIC	\$ 750,000
Amount collateralized by securities held by third party trust company in the District's name	<u>3,982,380</u>
<u>Total Bank Balance</u>	<u>\$ 4,732,380</u>

Pledged collateral was obtained for amounts up to \$3,107,303 for money on deposit at Community Trust Bank in the name of the District. Pledged collateral was obtained for accounts up to \$923,133 for money on deposit with BB&T and Community Trust Bank in the name of the District.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. CAPITAL ASSETS

The following is a summary of changes in fixed asset:

Description	Balance January 1, <u>2018</u>	<u>Additions</u>	<u>Dispositions</u>	Balance December 31, <u>2018</u>
Supply & Pumping	\$3,566,550	\$ -0-	\$ -0-	\$3,566,550
Water Treatment Equipment	12,748,517	826,263	-0-	13,574,780
Transmission & Distribution	88,971,553	4,213,635	119,947	93,065,241
General Plant	4,176,767	-0-	-0-	4,176,767
Land and Land Rights	559,455	7,700	-0-	567,155
Sewer Utility Plant	29,368,099	-0-	-0-	29,368,099
Sewer General Plant	<u>725,012</u>	<u>-0-</u>	<u>-0-</u>	<u>725,012</u>
Totals	140,115,953	5,047,598	119,947	145,043,604
Accumulated Depreciation	<u>(58,317,342)</u>	<u>(3,897,004)</u>	<u>119,947</u>	<u>(62,094,399)</u>
Net Utility Plant	<u>\$81,798,611</u>	<u>\$ 1,150,594</u>	<u>\$ -0-</u>	<u>\$82,949,205</u>

Description	January 1, <u>2017</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2017</u>
Supply & Pumping	\$3,566,550	\$ -0-	\$ -0-	\$3,566,550
Water Treatment Equipment	11,278,705	1,469,812	-0-	12,748,517
Transmission & Distribution	87,012,032	1,959,521	-0-	88,971,553
General Plant	4,176,767	-0-	-0-	4,176,767
Land and Land Rights	553,267	6,188	-0-	559,455
Sewer Utility Plant	29,368,099	-0-	-0-	29,368,099
Sewer General Plant	<u>725,012</u>	<u>-0-</u>	<u>-0-</u>	<u>725,012</u>
Totals	136,680,432	3,435,521	-0-	140,115,953
Accumulated Depreciation	<u>(54,433,806)</u>	<u>(3,883,536)</u>	<u>-0-</u>	<u>(58,317,342)</u>
Net Utility Plant	<u>\$82,246,626</u>	<u>\$ (448,015)</u>	<u>\$ -0-</u>	<u>\$81,798,611</u>

Depreciation expense was \$3,897,004 and \$3,883,536 for the years ended December 31, 2018 and 2017, respectively.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

12. CONSTRUCTION FUNDS

The District has several construction accounts used for the water projects. These are as follows:

	<u>2018</u>	<u>2017</u>
Big Creek Sewer Coal Settlement	\$5,401	\$ 5,401
John Creek Project	3,341	3,341
District Wide Tap Fees	68,064	45,532
Misc. Line Extensions	1,408	40,183
MWD Special Projects	447	772
Cowpen Waste Water Project	1,860	1,860
Elk Creek Project	5,372	5,372
Water Treatment Plant Upgrade	1	1
Water Treatment Raw Water Intake	25	25
LMI Service Contract	656	656
Various Short Line Extensions	191	191
Telemetry Project	100	100
Watson Hill Water Line	85	85
Long Fork Virgie Sewer Project	100	100
Belfry Pond Sewer Project	100	100
Smith Fork Waste Water Phase II	100	100
Pike County Fiscal Court Projects	133,981	135,903
Repair and Maintenance Reimbursement	40,508	18,761
MWD Rehabilitation Project	5,160	5,160
Sewer Customer Deposit	<u>27,259</u>	<u>23,300</u>
<u>Total Construction Funds</u>	<u>\$ 294,159</u>	<u>\$ 286,943</u>

13. RESTRICTED ASSETS AND RESERVE NET ASSETS

As of December 31, 2018 and 2017 restricted cash were as follows:

	<u>2018</u>	<u>2017</u>
Depreciation Reserve	\$ 851,513	\$ 851,428
Sinking Fund	670,983	629,224
Customer Deposit Escrow Account	379,459	354,301
Operation & Maintenance reserve	180,108	99,441
Waste Water O & M Reserve	868,234	867,267
Recycling Account	5,711	3,589
Construction Account	<u>294,159</u>	<u>286,943</u>
<u>Total Restricted Cash</u>	<u>\$3,250,167</u>	<u>\$3,092,193</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

14. RESTRICTED ASSETS AND RESERVE NET ASSETS Continued)

The District is required by debt covenants to pay into and maintain a Depreciation Reserve Fund, a Repair and Maintenance Fund and Operation and Maintenance Fund. These Amounts may be used for extraordinary maintenance expenses related to the project or for costs of replacing worn obsolete portions of the project. If Amounts are withdrawn from said funds, the District must make required periodic deposits until the required balance is reinstated.

	Maximum Required Balance	Required Balance at <u>12/31/18</u>	Actual Balance At <u>12/31/18</u>
Depreciation Reserve Funds	\$852,060	\$ 852,060	\$ 851,513
Repairs and Maintenance Funds	874,168	<u>863,218</u>	<u>1,048,342</u>
Total		<u>\$1,715,278</u>	<u>\$1,899,855</u>

The Repair and Maintenance Funds required by Kentucky Infrastructure Authority (KIA) loan agreements are fully funded.

The Depreciation Reserve Funds Required by USDA-Rural Development (RD) loan requirements are fully funded.

The USDA-Rural Development (RD) loan agreements also include a requirement for an Operation and Maintenance Fund. The funding of this reserve is secondary to the Depreciation Reserve Funds. Mountain Water's management stated during the field work that there is verbal agreement to transfer \$6,000 monthly O & M reserve to Rural Development Reserves until equal to 6 months revenue. These payments were transferred during 2018.

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

15. CONSTRUCTION IN PROGRESS

Mountain Water District has overseen several construction projects. As of December 31, 2018 and 2017, the following projects were in progress.

	<u>2018</u>	<u>2017</u>
<u>Water Projects</u>		
FEMA Mitigation Project	\$ -0-	\$ -0-
Tank Rehab Southern Corrosion	-0-	90,100
Jonican	-0-	908,105
Bad Fork	-0-	-0-
Pompey	-0-	1,634,002
Majesterial District 2	-0-	8,299
Various In House Projects	128,729	657,230
<u>Sewer Projects</u>		
Phelps/Buskirk	118,038	67,038
Residential Grinder Replacement	-0-	224,549
Henry Clay	138,708	138,708
Belfry Pond Sewer	855,393	732,774
Douglas	<u>3,834,500</u>	<u>1,753,329</u>
<u>Total Construction in Progress</u>	<u>\$ 5,075,368</u>	<u>\$ 6,214,134</u>

16. BONDS PAYABLE

	<u>2018</u>	<u>2017</u>
Shelby Waste Water Project Fund		
The 4.125% sewer system revenue bonds issued July 22, 2005 in the original amount of \$740,000 are payable to USDA-Rural Development to the year 2045. The bonds are secured by a statutory mortgage lien on the utility plant service and a pledge of all water revenues from the system	\$621,000	\$633,500
Phelps Waste Water Project Bond		
The 4.5% sewer system revenue bonds issued October 23, 2003 in the original amount of \$426,000 are payable to USDA-Rural Development to the year 2043. The bonds are secured by a statutory mortgage lien on the utility plant in service and a pledge of all water revenues from the system.	349,500	357,000

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2018 AND 2017

16 BONDS PAYABLE (Continued)

	<u>2018</u>	<u>2017</u>
Feds Creek Project		
The 3.5% revenue bonds issued July 2002 in the original amount of \$800,000 are payable to USDA-Rural Development to the year 2035. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and a pledge of all water revenues from the system.	\$609,000	\$626,000
Johns Creek		
The 4.125% revenue bonds issued November 2005 in the original amount of \$1,650,000 are payable to USDA-Rural Development to the year 2027. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and a pledge of all water revenues from the system.	1,412,000	1,439,000
Russell Fork Water Plant Project		
The 4.5% revenue bonds issued April 2009 in the original amount of \$650,000 are payable to USDA-Rural Development to the year 2047. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and pledge of all water revenue from the system.	<u>\$ 585,000</u>	<u>\$ 595,000</u>
Total bonds	<u>\$3,576,500</u>	<u>\$ 3,650,500</u>
Less current portion	<u>(75,000)</u>	<u>(73,000)</u>
Long Term Bonds Payable	<u>\$3,501,500</u>	<u>\$3,577,500</u>

Maturities of these long-term bonds are as follows:

	<u>Principal</u>	<u>Interest</u>
December 31		
2019	75,000	144,494
2020	78,500	141,293
2021	81,000	138,491
2022	86,000	135,423
2023	88,100	131,944
2024-2028	525,500	603,853
2029-2033	621,500	519,849
2034-2038	764,000	369,764
2039-2043	852,500	211,113
2044-2048	402,500	52,977
2049-2053	1,900	-0-
	<u>\$3,576,500</u>	<u>\$2,449,201</u>

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

17. NOTES PAYABLE AND CAPITAL LEASES

	<u>2018</u>	<u>2017</u>
Kentucky Rural Water Finance Corporation The 3.14% note issued August 2012 120 the original amount of \$6,270,000, payable in monthly installments, with payments through August 2039, secured by water revenues from the system.	\$ 4,300,000	\$ 4,675,000
Kentucky Infrastructure Authority-Multi-Area The 2.9% note issued June 1994 in the original Amount of \$5,165,093, payable in semi-annual Installments of \$129,479, with payments through the year 2023, secured by water revenues from the system.	1,197,252	1,416,706
Kentucky Infrastructure Authority-Indian Creek The 3% note issued June 1994 in the original amount of \$377,760, payable in semi-annual installments of \$8,577, with payments though the year 2023, secured by water revenue from the system.	79,098	93,553
Kentucky Infrastructure Authority-F01-07 The 1.8% note issued January 2002 in the original amount of \$1,197,072 payable in semi-annual of \$35,769, with payments through the year 20024 secured by water revenues from the system.	373,017	436,977
Kentucky Infrastructure Authority A03-06 The 1% note issued June 2004 in the original Amount of \$226,776, payable in semi-annual Installments of \$6,846 with payments through the year 2023, secured by water revenues from the system.	59,236	68,873
Kentucky Infrastructure Authority A209-32 The 1% note issued January 2010 in the original amount of \$750,000 with \$390,750 in principle forgiveness, payable in semi-annual installments of \$5,212, with payments through the year 2031, secured by water revenues from the system.	237,993	255,781

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2018 AND 2017

17. NOTES PAYABLE AND CAPITAL LEASES (Continued)

	<u>2018</u>	<u>2017</u>
<u>US Bank</u>		
Loan to finance rate study, original balance \$149,956 at 2.9% interest; payments are \$6,441 for 24 months, maturing December 2017.	\$ -0-	\$ 6,421
 <u>Community Trust Bank</u>		
A purchase agreement, original balance \$29,128 at 4.0% interest, secured by vehicle; payments are \$660 for 48 months, maturing April 2020.	9,630	17,000
 <u>US Bank</u>		
A purchase agreement, original balance \$26,853 at 3.0% interest, secured by vehicle; payments are \$568 for 25 months, maturing July 2018.	10,462	16,400
 <u>Community Trust Bank</u>		
A purchase agreement, original balance \$22,111 at 4.0% interest, secured by vehicle; payments are \$500 for 48 months, maturing September 2020	10,110	15,578
 <u>Community Trust Bank</u>		
A purchase agreement, original balance \$22,111 at 4.0% interest, secured by vehicle; payments are \$500 for 48 months, maturing September 2020	10,110	15,578
 <u>US Bank</u>		
Loan to finance Big Fork Project, original balance \$272,145 at 3.1% interest; payments are \$4,153 beginning June 26, 2016 for 24 months, maturing December 2017	139,333	175,623
 <u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$52,797; at 4.567% interest; secured by 2 vehicles; payments are \$1,192 for 48 months maturing October 2022.	50,209	-0-
 <u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$29,119; at 2.01% interest; secured by a vehicle; payments are \$658 for 48 months and a final maturing June 2020.	3,253	10,853

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

17. NOTES PAYABLE AND CAPITAL LEASES (Continued)

	<u>2018</u>	<u>2017</u>
<u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$92,577; at 3.0% interest; secured by a Excavator; payments are \$3,959 for 24 months maturing September 2020.	\$ 85,038	\$ -0-
<u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$20,722; at 3.035% interest; secured by vehicle; payments are \$460 for 48 months maturing June 2018.	-0-	2,735
<u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$20,772; at 3.035% interest; secured by a vehicle; payments are \$460 for 48 months and a final balloon payment of \$22,246, maturing June 2018.	-0-	2,734
<u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$20,772; at 3.035% interest; secured by a vehicle; payments are \$460 for 48 months and a final balloon payment of \$22,246, maturing June 2018.	-0-	2,734
<u>US BANK</u>		
A lease purchase agreement, original balance \$33,789; at 3.853% interest; secured by a vehicle; payments are \$761 for 28 months, maturing 2021.	23,788	31,826
<u>US BANK</u>		
A lease purchase agreement, original balance \$22,814; at 3.8% interest; secured by a vehicle; payments are \$514 for 48 months maturing in 2021.	15,132	20,598
Kentucky Infrastructure Authority A16-079		
The .75% note issued August 2018 in the original Amount of \$300,000, payable in semi-annual Installments of \$7,408 with payments through the year 2037, secured by water revenues from the system.	285,470	-0-

system.

35

285,470

-0-

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

17. NOTES PAYABLE AND CAPITAL LEASES (Continued)

2018

2017

Community Trust Bank

A purchase agreement, original balance \$30,198 at 4.051% interest, secured by vehicle; payments are \$683 for 48 months, maturing March 2020.

9,961

17,584

Community Trust Bank

A purchase agreement, original balance \$23,799 at 4.054% interest, secured by vehicle; payments are \$598 for 48 months, maturing May 2022.

20,565

-0-

Community Trust Bank

A purchase agreement, original balance \$22,042 at 4.054% interest, secured by vehicle; payments are \$498 for 48 months, maturing March 2022.

18,180

-0-

Community Trust Bank

A purchase agreement, original balance \$28,897 at 4.18% interest, secured by vehicle; payments are \$655 for 48 months, maturing March 2021.

16,788

23,900

Community Trust Bank

Line of credit AEP currently at 3.75% Index rate maximum rate of 3.75% renews every August
Shown current at 12/31/18.

-0-

111,061

US BANK

A lease purchase agreement, original balance \$22,849; at 3.754% interest; secured by a vehicle; payments are \$513 for 48 months maturing in 2021.

14,680

20,178

Community Trust Bank

A lease purchase agreement, original balance \$24,879; at 4.053% interest; secured by a vehicle; Payments are \$560 for 48 months maturing May 2022.

21,510

-0-

Total Notes Payable and Capital Leases

6,990,815

8,096,733

Less current portion

(939,257)

(1,092,233)

Total Long-term Portion

\$6,051,558

\$7,004,500

MOUNTAIN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTES PAYABLE AND CAPITAL LEASES (Continued)

Maturity of the notes payable and capital leases are as follows:

	<u>Principal</u>	<u>Interest</u>
2019	939,257	81,976
2020	849,290	64,826
2021	685,340	50,848
2022	611,945	38,176
2023	612,522	26,717
2024-2028	1,407,544	92,737
2029-2033	1,082,602	38,930
2034-2038	694,771	13,244
2039-2043	<u>107,544</u>	<u>594</u>
	<u>\$6,990,815</u>	<u>\$408,048</u>

18. ADVANCES FOR CONSTRUCTION

	<u>2018</u>	<u>2017</u>
<u>Water Projects</u>		
In House Projects	\$ 220,309	\$ 629,030
Pompey	-0-	1,634,000
Coal Severance	-0-	908,105
<u>Sewer Projects</u>		
Phelps Waste Water		
Kentucky Infrastructure Authority	108,110	57,110
Residential Grinders	-0-	224,549
Douglas WTP		
LGEDF Funds	3,826,373	1,748,337
Henry Clay Sewer Projects:		
COE Section 531	45,391	45,391
LGEDF Funds	92,640	92,640
Belfry Pond		
Coal Severance	<u>855,393</u>	<u>732,774</u>
<u>Total Advances for Construction</u>	<u>\$5,148,216</u>	<u>\$ 6,071,937</u>

RICHARD F. PAULMANN, CPA, LLC
301 MOUNT MERCY ROAD
PEWEE VALLEY, KY 40056
Ph: (502) 550-1568
e-mail: Richardpaulmann@twc.com

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

To the Board of Commissioners
Mountain Water District
Pikeville, KY

I 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 Mountain Water District as of and for the year December 31, 2018, and the related notes to the financial statements, which collectively comprise Mountain Water District's basic financial statements, and have issued my report thereon dated September 24, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Mountain 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain 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 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Mountain Water District's financial statements are free from material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results to 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Richard F. Paulmann, CPA, LLC.
Pewee Valley, KY
September 24, 2019

REQUIRED SUPPLEMENTARY INFORMATION

MOUNTAIN WATER DISTRICT
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) DEFERRED COMPENSATION
PLAN
(AMOUNTS IN THOUSANDS)

	2018	2017	2016	2015
Portion of the net Pension liability (asset)	0.0817%	0.0705%	0.00492%	0.00423%
Proportionate share of The net pension liability (asset)	\$4,976	\$4,127	\$242	\$163
Covered employee payroll	\$2,081	\$1,966	\$857	\$150
Proportionate share of the Pension liability (asset) As a percentage of its Covered employee payroll	2.39%	2.1%	.28%	1.09%
Plan fiduciary net pension As a percentage of the Total pension liability	53.30%	55.50%	59.97%	66.80%

SEE ACCOMPANYING NOTES AND REPORT OF INDEPENDENT AUDITORS

MOUNTAIN WATER DISTRICT
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS

**COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) DEFERRED COMPENSATION
PLAN
(AMOUNTS IN THOUSANDS)**

	2018	2017	2016	2015
Contractually required Contribution	\$524	\$485	\$194	\$26
Contributions in relation To the contractually Required contribution	\$524	\$485	<u>\$194</u>	\$26
Contribution deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$</u>
Covered employee payroll	\$2,081	\$1,966	\$782	\$116
Contributions as a Percentage of covered Employee payroll	25.0%	25.0%	25.0%	22.0%

SEE ACCOMPANYING NOTES AND REPORT OF INDEPENDENT AUDITORS

**MOUNTAIN WATER DISTRICT
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

	2018	2017
Portion of the net OPEB Liability	0.0817%	0.0705%
Proportionate share of The net OPEB liability	\$ 1,450	\$ 1,417
Covered employee payroll	\$2,081	\$1,966
Proportionate share of the OPEB liability (asset) As a percentage of its Covered employee payroll	70.00%	72.00%
Plan fiduciary net OPEB As a percentage of the Total OPEB liability	52.4%	-

SEE ACCOMPANYING NOTES AND REPORT OF INDEPENDENT AUDITORS

MOUNTAIN WATER DISTRICT
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
Contractually required Contribution	\$95	\$82
Contributions in relation To the contractually Required contribution	\$95	\$82
Contribution deficiency (Excess)	\$ -	\$ -
Covered employee payroll	\$2,081	\$1,960
Contributions as a Percentage of covered Employee payroll	5.0%	4.0%

SEE ACCOMPANYING NOTES AND REPORT OF INDEPENDENT AUDITORS