

**BATH COUNTY WATER DISTRICT
SALT LICK, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017**

BATH COUNTY WATER DISTRICT
SALT LICK, KENTUCKY
Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Bath County Water District, Kentucky
Salt Lick, KY

We have audited the accompanying financial statements of the business-type activities of Bath County Water District, Kentucky as of and for the year ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Bath County Water District, Kentucky, 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

Other Information

The schedule of the District's proportionate share of net pension liability and schedule of District contributions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 schedule of the District's proportionate share of net pension liability and schedule of District contributions are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2019, on our consideration of the Bath County Water District, Kentucky'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 Bath County Water District, Kentucky's internal control over financial reporting and compliance.

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 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 appropriated operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

February 22, 2019

**BATH COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
DECEMBER 31,**

ASSETS & DEFERRED OUTFLOWS	2018	2017
Current Assets		
Cash	\$ 1,618,662	\$ 1,539,900
Accounts receivable		
Customers, net	272,184	312,191
Other		
Prepaid expenses	23,789	19,121
Inventory	125,699	86,148
	<u>2,040,334</u>	<u>1,957,359</u>
Restricted Assets		
Cash-Customer deposits	85,115	76,604
Cash-Sinking fund	88,789	79,982
Cash-Depreciation fund	242,400	242,400
	<u>416,304</u>	<u>398,986</u>
Fixed Assets		
Property, Plant & Equipment	16,859,039	15,550,467
Less accumulated depreciation	(6,479,729)	(6,115,319)
Construction-in-progress	-	1,062,312
	<u>10,379,310</u>	<u>10,497,460</u>
Deferred Outflow of Resources		
Deferred Outflow of Resources-OPEB	80,191	-
Deferred Outflow of Resources-Pension	291,647	189,421
	<u>371,838</u>	<u>189,421</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$13,207,785</u>	<u>\$ 13,043,225</u>
 LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 101,835	\$ 75,575
MUPB payable	26,131	25,651
BCSD payable	5,284	4,137
O'Ville payable	4,419	4,475
Means payable	4,386	373
Accrued wages and Vacation Pay	37,334	58,477
Customer deposits	81,402	78,240
Advances	-	-
Taxes payable	4,838	4,131
Accrued interest payable	31,467	30,709
Current Portion of bonds payable	32,000	30,500
Total Current Liabilities	<u>329,097</u>	<u>312,267</u>
Noncurrent Liabilities		
Accrued OPEB Liabilities	300,144	-
Accrued Pension Liabilities	873,899	662,950
KIA DWSFR Loan	618,231	636,791
Bonds payable, net	1,499,500	1,531,500
Total Long-term Liabilities	<u>3,291,774</u>	<u>2,831,241</u>
Deferred Inflow of Resources		
Deferred Inflow of Resources-OPEB	1,531	-
Deferred Inflow of Resources-Pension	22,875	2,049
	<u>24,406</u>	<u>2,049</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	3,645,277	3,145,558
Net Position		
Investment in Capital Assets, Net of Related Debt	8,847,810	8,935,460
Restricted Net Assets	416,304	398,986
Unrestricted Net Assets	298,395	563,221
TOTAL NET POSITION	<u>\$ 9,562,509</u>	<u>\$ 9,897,667</u>

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

BATH COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
PROPRIETARY FUND
for the years ended December 31,

	2018	2017
OPERATING INCOME		
Water sales	\$ 2,114,724	\$ 2,109,164
Other revenue	<u>115,130</u>	<u>102,633</u>
Total operating income	<u>2,229,855</u>	<u>2,211,797</u>
OPERATING EXPENSES		
Power	86,533	82,852
Water purchased	904,658	904,822
Salaries	362,477	392,984
Materials and Supplies	47,075	47,682
Transportation expense	28,948	22,571
Insurance	29,214	27,935
Health and Life Insurance	133,236	149,669
Chemicals	10,294	8,881
Payroll taxes	30,089	30,819
Employee retirement	207,276	86,803
Legal and Professional	6,500	5,500
Contract Services	11,403	8,760
Office Utilities	18,550	16,851
Office Supplies	39,563	34,757
Postage	15,114	15,056
Miscellaneous	-	-
Bad debt expense (recoveries)	6,904	8,289
Regulatory commission expenses	<u>4,292</u>	<u>4,091</u>
Total operating expense	<u>1,942,126</u>	<u>1,848,321</u>
Operating income before depreciation	287,728	363,476
Depreciation expense	<u>(364,411)</u>	<u>(337,242)</u>
OPERATING INCOME (LOSS)	(76,682)	26,234
Non-operating income (Expenses)		
Gain (Loss) on disposal of assets	-	-
Customer Tap Fees	-	-
DOT project flow through expense	88,884	-
DOT project flow through income	(88,884)	-
Interest income	7,921	3,520
Interest expense	<u>(66,415)</u>	<u>(66,919)</u>
Total Non-Operating Income (Expense)	<u>(58,494)</u>	<u>(63,399)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	(135,177)	(37,165)
STATE CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>(3,529)</u>	<u>224,999</u>
NET INCOME (LOSS) AFTER CONTRIBUTIONS	(138,705)	187,834
NET POSITION, BEGINNING OF YEAR	<u>9,681,320</u>	<u>9,690,463</u>
Add: Customer Tap Fees	19,894	19,400
Add: Customer Contributions	-	-
NET POSITION, END OF YEAR	<u>\$ 9,562,509</u>	<u>\$ 9,897,667</u>

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

BATH COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
for the years ended December 31,

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 2,269,861	\$ 2,185,075
Payments to Suppliers	(1,453,393)	(1,400,328)
Payments to Employees	(392,566)	(423,803)
Other Receipts (Payments)	<u>-</u>	<u>-</u>
Net Cash (Used) Provided by Operating Activities	423,902	360,944
CASH FLOW FROM INVESTING ACTIVITIES		
Sinking Fund	8,807	9,145
Depreciation Fund	8,511	32,585
Interest Income	<u>7,921</u>	<u>3,520</u>
Net Cash (Used) Provided by Investing Activities	<u>25,239</u>	<u>45,250</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	-	126,664
Principal Paid on Capital Debt	(49,061)	(58,000)
Purchases of Capital Assets	(253,949)	(266,540)
State Grants Received	(3,529)	-
Contributed Capital-Tap Fees	19,894	19,400
Interest Paid on Capital Debt	<u>(66,415)</u>	<u>(66,919)</u>
Net cash (Used) Provided by Financing Activities	<u>(353,061)</u>	<u>(245,395)</u>
NET INCREASE (DECREASE) IN CASH	96,080	160,799
Cash and Cash Equivalents - At beginning of year	<u>1,938,886</u>	<u>1,778,088</u>
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<u>\$ 2,034,966</u>	<u>\$ 1,938,886</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (76,682)	\$ 26,234
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	364,411	337,242
Change in Assets and Liabilities:		
Accounts Receivable, Net	40,007	(26,723)
Inventories	39,551	(20,957)
Prepaid Expense	(4,668)	(1,368)
Accounts Payable and Other Payables	79,265	43,378
Customer Deposits	3,162	3,746
Accrued Wages and Vacation	<u>(21,143)</u>	<u>(607)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 423,902</u>	<u>\$ 360,944</u>

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

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 1: ORGANIZATION AND ACCOUNTING POLICIES

The Bath County Water District was created and organized as a public body corporate in Bath County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Bath County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operation 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 Bath County 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 government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

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

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

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 management focus. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, 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.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017**

Note 1: ORGANIZATION AND ACCOUNTING POLICIES

Basis of Accounting

The District maintains its accounting records on the accrual basis during the year. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is maintained at lower of cost or market.

Utility Plant

Utility Plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation

Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates on a straight-line basis determined by reference to Utility Standards Rates (NARUC). The provisions for depreciation in 2017 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statement include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017**

Net Position

Net position represents the difference between assets and liabilities in the statement of net assets. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does have a deposit policy for custodial credit risk. As of December 31, 2018, \$0 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$0
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NOTE 3: LONG-TERM DEBT

Revenue bonds in the principal amount of \$235,000 were authorized in 1970 and are held by the Economic Development Administration. A 1977 Bond Issue in the amount of \$130,000 was sold to the Farmers Home Administration, payable and secured by a pledge of the revenues of the District on parity as to security and source of payment with the 1970 Bonds held by EDA. A 1982 Bond Issue in the amount of \$106,000 was sold to the Farmers Home Administration as second lien bonds subject to the vested rights and priority of the 1970 and 1977 bonds. Bonds in the amount of \$375,000 were authorized in 1988 and issued February 14, 1989, as second lien bonds on parity as to security and source of payment with the 1982 bonds. Bonds in the amount of \$138,000 were authorized and issued May 26, 1989 as second lien bonds on parity as to security and source of payment with the second lien bonds of 1982 and 1988. Bonds in the amount of \$103,000 were authorized in 1991 and issued November 25, 1992 and bonds in the amount of \$280,000 were authorized in 1994 and issued October 20, 1994, as second lien bonds. Bonds in the amount of \$200,000 were authorized and issued January 22, 1999. Bonds in the amount of \$500,000 were authorized and issued June 29, 2004. The Bonds Issues of 1988, 1989, 1991, 1998 and 2004 were sold to the Farmers Home Administration. Bonds Series 2009 in the amount of \$259,000 were authorized and issued January 26, 2010.

BATH COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For years Ended December 31, 2018 and 2017

Note 4: LONG-TERM DEBT (CONTINUED)

The Following is a summary of changes in long-term debt for the year ended December 31, 2018

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bond Series 2004				
Loan Amount \$500,000				
Interest rate 4.375%	428,500		8,500	420,000
Bond Series 2006				
Loan Amount \$1,039,000				
Interest rate 4.125%	900,000		17,500	882,500
Bond Series 2009				
Loan Amount \$259,000				
Interest rate 2.375%	233,500	-	4,500	229,000
	1,562,000	-	30,500	1,531,500
Less: Current Maturities	30,500			32,000
Totals	<u>1,531,500</u>			<u>1,499,500</u>

The following is a schedule of long-term debt maturities

	<u>Principle</u>	<u>Interest</u>
2019	32,000	59,590
2020	33,000	58,314
2021	34,000	56,996
2022	35,500	55,626
2023	37,500	54,187
2024-2028	210,000	247,145
2029-2033	258,000	181,915
2034-2038	315,500	144,110
2039-2043	384,500	74,393
2044-2048	181,000	9,158
2049-2050	10,500	125
	<u>1,531,500</u>	<u>941,559</u>

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017**

NOTE 5: RESERVES

The Bath County Water District is required to comply with the bond agreements of all bond issues as follows:

Sinking Fund

The District is required to set aside an amount into a special account known as the Bath County Water District Water System Revenue Bonds, Bond and Interest Sinking Fund. The amount to be so set aside and paid each month shall be not less than the following respective amounts:

- 1) A sum equal to one sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- 2) A sum equal to one twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the reserve at December 31, 2016 was \$32,000. The District had set aside \$88,789 into a restricted account. The District is properly reserved and is over by \$56,789 at December 31, 2018.

Depreciation Fund

The District is required to deposit into the Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and used, upon appropriate certification to the bank, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$219,400, the monthly payments may be discontinued, or by order of the governing body of the District, be diverted into the Sinking Fund Account. The District had set aside \$219,400 and \$219,400 at December 31, 2018 and 2017, respectively.

NOTE 6: SEWER COLLECTIONS

The District began collecting sewer payments for the Morehead Utility Plant Board, Bath County Sewer District and City of Owingsville. The accounts receivable reflected on the balance sheet represent monies receivable for water and sewer service. The MUPB payable, BCSD payable, and OUPB payable are the amount of monies in the receivable, which are due to the MUPB, BCSD, and OUPB. The balance at December 31, 2018 and 2017 was \$40,205 and \$34,636, respectively.

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN

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

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

Contributions - For the year ended June 30, 2018, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% of each employee's wages. The contributions are allocated to both the pension and insurance trusts. Plan members contributed 14.48% to the pension trust for non-hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's

BATH COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the years ended December 31, 2018 and 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended December 31, 2018, the District contributed \$51,399, or 100% of the required contribution. The contribution was allocated \$50,708 to the CERS pension fund and \$691 to the CERS insurance fund.

Benefits - CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

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

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At December 31, 2018, the District reported a liability for its proportionate share of the net pension liability of \$873,899. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2017 was .01493 percent, which was an increase of .001465 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$72,590. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows Resources</u>
Differences between expected and actual results	\$ 1,084	\$ 22,183
Changes of assumptions	161,258	
Net difference between projected and actual earnings on Plan investments	10,809	
Changes in proportion and differences between District . contributions and proportionate share of contributions	45,906	692
District contributions subsequent to the measurement date	<u>72,590</u>	
Total	\$ <u>291,647</u>	\$ <u>22,875</u>

The \$72,590 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2019	\$ 84,937
2020	\$ 84,273
2021	\$ 38,193
2022	\$ (11,221)

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

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
	3.05%, average, including inflation
	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the 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.

The actuarial assumptions used in the June 30, 2017 valuations 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 asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long -Term Nominal Real Rate of Return
U.S. Equity	26.5%	11.27%
Non-U.S. Equity	26.5%	2.83%
Fixed Income	12.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	2.0%	3.65%
	100%	

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate - The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26- year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bondrate.

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

	<u>Discount rate</u>	<u>District's proportionate share of net pension liability</u>
1% decrease	5.25%	\$ 1,102,175
Current discount rate	6.25%	\$ 873,899
1% increase	7.25%	\$ 682,947

Payable to the Pension Plan - At December 31, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2018, of which \$0 was allocated to the CERS pension fund. The payable includes only the pension contribution allocation.

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8: Postemployment Benefits Other Than Pensions (OPEB)

Plan Description - As more fully described in Note 7, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions-As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ending December 31, 2018, the employer's contribution was 4.70% to the insurance trust. Employees hired after September 1, 2008 were required to contribute to an additional 1% to cover the cost of medical insurance that is provided through GERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2018, the District contributed \$17,194, or 100% of the required contribution.

Benefits - CERS provides health insurance benefits to Plan employees and beneficiaries. For retirement purposes, employees are grouped into three tiers based on hire date:

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 8: Postemployment Benefits Other Than Pensions (OPEB)

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8: Postemployment Benefits Other Than Pensions (OPEB)

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources-At December 31, 2018, the District reported a liability for its proportionate share of the net OPEB liability of \$300,144. 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 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. The District's proportionate share at June 30, 2017 was .014930%.

For the year ended December 31, 2018, the District recognized OPEB expense of \$17,194. 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 of Resources	Deferred Inflows Resources
Differences between expected and actual results	\$	\$ 834
Changes of assumptions	65,309	
Net difference between projected and actual earnings on Plan investments	14,185	0
Changes in proportion and differences between District contributions and proportionate share of contributions	697	697
District contributions subsequent to the measurement date	<u>0</u>	
Total	<u>\$ 80,191</u>	<u>\$ 1,531</u>

The \$0 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. This includes an adjustment of \$2,333 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,		
2019	\$	8,533
2020	\$	8,533
2021	\$	8,533
2022	\$	8,533
2023	\$	12,079
2024	\$	3,382

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 8: Postemployment Benefits Other Than Pensions (OPEB)

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

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	
Pre - 65:	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65:	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

Mortality rates were based on the 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.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 8: Postemployment Benefits Other Than Pensions (OPEB)

The capital market assumptions developed by the investment consultant are intended for use over a 10- year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long- term Nominal Real Rate of Return
U.S Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	2.0%	2.69%
Total-	100%	

Discount Rate- The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The discount rate 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, 2017. 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.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 8: Postemployment Benefits Other Than Pensions (OPEB)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
 - The following presents the District's proportionate share of the net pension liability calculated using the discount rate 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 or 1-percentage-point higher than the current rate:

	<u>Discount rate</u>	<u>District's proportionate share of net OPEB liability</u>	
1% decrease	4.84%	\$	381,917
Current discount rate	5.84%	\$	300,144
1% increase	6.84%	\$	232,096

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 8: Postemployment Benefits Other Than Pensions (OPEB)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the District's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	District's proportionate share of net OPEB liability
1% decrease	\$ 230,226
Current trend rate	\$ 300,144
1% increase	\$ 391,034

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

Payable to the Pension Plan - At December 31, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2018. The payable includes only the insurance contribution allocation.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017**

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage.

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 10: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2018 was as follows:

Business-Type Activities	Balance Jan. 1, 2018	Additions	Deductions	Balance Dec. 31, 2018
Cost:				
Land	\$ 35,350			\$ 35,350
Plant in Service	14,682,989	1,264,697		15,947,686
Other Depreciable Assets	832,127	43,876		876,003
Construction in Progress	1,062,312	115,385	1,177,697	(0)
Totals at historical cost	<u>16,612,777</u>	<u>1,423,957</u>	<u>1,177,697</u>	<u>16,859,037</u>
Less accumulated depreciation:				
Land & Land Rights				-
Plant in Service	5,392,712	295,510		5,688,222
Other Depreciable Assets	722,607	68,901		791,508
Total accumulated Depreciation	<u>6,115,318</u>	<u>364,411</u>	-	<u>6,479,729</u>
Business-Type Activities Capital Assets - Net	<u>\$ 10,497,459</u>	<u>\$ 1,059,547</u>	<u>\$ 1,177,697</u>	<u>\$ 10,379,310</u>

Capital asset activity for the fiscal year ended December 31, 2017 was as follows:

Business-Type Activities	Balance Jan. 1, 2017	Additions	Deductions	Balance Dec. 31, 2017
Cost:				
Land	\$ 35,350			\$ 35,350
Plant in Service	14,616,118	66,871		14,682,989
Other Depreciable Assets	791,640	40,487		832,127
Construction in Progress	903,130	159,182		1,062,312
Totals at historical cost	<u>16,346,237</u>	<u>266,540</u>	-	<u>16,612,777</u>
Less accumulated depreciation:				
Land & Land Rights				
Plant in Service	5,109,429	283,283		5,392,712
Other Depreciable Assets	668,648	53,959		722,607
Total accumulated Depreciation	<u>5,778,076</u>	<u>337,242</u>	-	<u>6,115,318</u>
Business-Type Activities Capital Assets - Net	<u>\$ 10,568,161</u>	<u>\$ (70,702)</u>	<u>\$ -</u>	<u>\$ 10,497,460</u>

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017**

NOTE 11: CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

NOTE 12 – RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No.75

During 2018 the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards, GASB requires that cost-sharing governments report a new OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

Net position, at beginning of year	\$9,897,667
Beginning net OPEB liability	<u>(216,347)</u>
Net position, at beginning of year, as restated	\$9,681,320

REQUIRED SUPPLEMENTARY INFORMATION

**BATH COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2018**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$ 6,000,000	7/1/2019
Property - Building & Contents	15,000,000.00	7/1/2019
Equipment & Vehicles	140,000.00	7/1/2019
Treasurer and Commissioners	400,000.00	7/1/2019
Workers Compensation	Statutory	7/1/2019

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2018, accounts receivable were aged as follows:

	<u>Number Of Accounts</u>	<u>Amount</u>
Current	3,794	\$ 176,180
Over 30 Days	268	5,140
Over 60 Days	62	1,315
Over 90 Days	293	17,414
Total	<u>4,417</u>	<u>\$ 200,050</u>

During 2018, the District carried a reserve for possible uncollected accounts of \$9,025. Accounts in arrears have been collected or are covered by deposits.

The District had a total of 3,859 customers at December 31, 2018. Of these customers, 3,750 were residential and 87 were commercial.

**BATH COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Four Fiscal Years**

	2018	2017	2016	2015
District's proportion of the net pension liability	0.01493%	0.013465%	0.01337%	0.01323%
District's proportionate share of the net pension liability (asset)	\$ 873,899	\$ 662,950	\$574,740	\$ 438,000
District's covered employee payroll	\$ 391,510	\$ 392,984	\$ 336,805	\$327,905
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	223.21%	168.69%	170.64%	133.57%
Plan fiduciary net position as a percentage of the total pension liability	1094.23%	1492.97%	1686.06%	2191.67%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net pension liability is one year preceding the fiscal year of the District.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**BATH COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - PENSION
Last Five Fiscal Years**

	2018	2017	2016	2015	2014
Contractually required employer contribution	\$ 50,708	\$ 38,254	\$ 39,911	\$ 58,502	\$ 55,566
Contributions relative to contractually required employer contribution	50,708	38,254	39,911	58,502	55,566
Contribution deficiency (excess)	\$.	\$.	\$.	\$.	\$.
District's covered employee payroll	\$ 391,510	\$ 392,984	\$ 336,805	\$ 327,905	\$ 305,662
Employer contributions as a percentage of covered-employee payroll	12.95%	9.73%	11.84%	17.84%	18.18%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

**BATH COUNTY WATER DISTRICT
 REQUIRED SUPPLEMENTARY SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 Last Two Fiscal Years**

	2018	2017
District's proportion of the net OPEB liability	0.01493%	0.00%
District's proportionate share of the net OPEB liability (asset)	\$ 300,144	\$ 235,424
District's covered employee payroll	\$ 391,510	\$ 392,984
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	76.77%	59.90%
Plan fiduciary net position as a percentage of the total pension liability	3185.97%	unavailable

Notes:-

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net OPEB liability is one year preceding the fiscal year of the District.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the Company's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**BATH COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - OPEB
Last Five Fiscal Years**

	2018	2017	2016	2015	2014
Contractually required employer contribution	\$ 17,194	\$ 17,092	\$ 16,884	\$ 16,978	\$ 15,232
Contributions relative to contractually required employer contribution	17,194	17,092	16,884	16,978	15,232
Contribution deficiency (excess)	\$ -	\$	\$	\$	\$
District's covered employee payroll	\$ 391,510	\$ 392,984	\$ 336,805	\$ 327,905	\$ 305,662
Employer contributions as a percentage of covered-employee payroll	4.39%	4.3%	5.01%	5.10%	4.90%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

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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

To the Board of Commissioners
Bath County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Bath County Water District as of and for the year ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Bath County Water District District, Kentucky's basic financial statements and have issued our report thereon dated February 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bath County Water District District, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bath County Water District District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bath County Water District District, Kentucky'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 Bath County Water District District, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

February 22, 2019