CALDWELL COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

CALDWELL COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Caldwell County Water District
Princeton, Kentucky

Report on the Financial Statements
We have audited the accompanying financial statements of the Caldwell County Water District as of and for the year ended December 31, 2018, 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 the 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 of 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 assessments 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 Caldwell County Water District as of December 31, 2018, 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.

140 COMMERCE ST.
PO BOX 909
EDDYVILLE, KY 42038

270-388-4114 OFFICE
270-388-2363 FAX

Emphasis of Matter
As discussed in Note 13 to the financial statements, the District has implemented Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, during the year ended December 31, 2018. This standard requires measuring the other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to the plan, OPEB expense, including information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position within the financial statements. The cumulative effect of applying GASB 75 is presented as a restatement of beginning net position. Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedules of pension and OPEB contributions, and schedules of proportionate share of net pension and OPEB liabilities on pages 3 through 7 and 35 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated June 4, 2019, on our consideration of the Caldwell County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Caldwell County Water District's internal control over financial reporting and compliance.

Jessica Daniel, CPA

Eddyville, Kentucky
June 4, 2019

CALDWELL COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)

The Caldwell County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2018. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources of the District exceed its total liabilities and deferred inflows of resources at December 31, 2018, by $5,865,396 (Net Position). Of this amount, a negative $73,567 represents the unrestricted net position.
- The District's net position increased by $52,423.
- The District's 2018 operating revenues of $1,316,056 were comparable to 2017 with an increase of $2,895, and operating expenses for 2018 of $1,166,934 increased $61,550 (5.0%). Non-operating income for 2018, consisted of interest income of $634, capital contributions consisted of tap on fees of $16,000, and contributed line extensions of $12,175.
- The District's unrestricted cash available for operating expenses was $623,632 at December 31, 2018.
- The District's investment in capital assets was $8,234,574 net of depreciation at December 31, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

Caldwell Count Water District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net position. The statement of net position presents the financial position of the District. It presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 8.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 9 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 10.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 11-33 of this report.

Supplementary Information. In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 35-39.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $5,865,396 as of December 31, 2018.

The District's overall financial position and operations for the past two years are summarized as follows:

CALDWELL COUNTY WATER DISTRICT'S NET POSITION

	2018	2017
Assets		
Current and other assets	$ 1,452,703	$ 1,316,541
Capital assets	8,234,574	8,367,146
Total Assets	9,687,277	9,683,687
Deferred Outflows of Resources	238,309	344,710
Liabilities		
Other liabilities	171,502	170,186
Current portion of long-term debt	88,000	99,000
Long-term liabilities	3,558,342	3,667,336
Total Liabilities	3,817,844	3,936,522
Deferred Inflows of Resources	242,346	72,414
Net Position		
Net investment in capital assets	5,305,574	5,339,146
Restricted	633,389	640,799
Unrestricted, restated	(73,567)	(39,519)
Total Net Position	$ 5,865,396	$ 5,940,426

The largest portion of the District's net position (90%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies, mapping, and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (10%) represents resources that are subject to external restriction (debt service) on how they may be used. The unrestricted net position is a negative $73,567.
Analysis of the District's Operations – Overall the District had a increase in net position of $52,423.

The following table provides a summary of the District's operations for the year ended December 31, 2018 and 2017.

CALDWELL COUNTY WATER DISTRICT
CHANGES IN NET POSITION

	2018	2017
Revenues		
Operating revenues	$ 1,316,056	$ 1,313,161
Investment income	634	342
Gain (loss) on sale of assets	-	801
Capital grants and contributions	28,175	19,702
Total Revenues	1,344,865	1,334,006
Expenses		
Administrative and general expenses	324,773	409,077
Source of supply purchases	296,956	305,833
Transmission and distribution expenses	271,221	256,069
Depreciation and amortization	228,455	222,305
Interest on debt and other	125,508	130,087
Payroll and other taxes	20,023	20,483
Customer accounts expenses	12,107	11,432
Water treatment	13,267	6,800
Bad debts	132	(1,107)
Total Expenses	1,292,442	1,360,979
Change in Net Position	52,423	(26,973)
Net Position - January 1, restated	5,812,973	6,046,437
Net Position - December 31	$ 5,865,396	$ 6,019,464

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

Overall, the District's financial position is consistent with the previous year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget passed by the board anticipated an increase in the fund balance of $116,586. The budget was amended to account for an additional $143,902 of depreciation expense. The amended budget passed by the board anticipated a decrease in the fund balance of $27,316. The actual operating revenue received exceeded budgeted revenue by $28,856. Budgeted expenditures exceeded actual expenditures by $40,712. The budgetary figures and actual amounts are reported in the supplementary information on page 35 .

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets for business-type activities as of December 31, 2018, amounts to $8,234,574 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure. The total decrease in the District's net investment in capital assets for the fiscal year was less than 1%.

	2018	2017
Business-type activities		
Capital assets, not being depreciated		
Land	$ 9,000	$ 9,000
Total capital assets, not being depreciated	9,000	9,000
Capital assets, being depreciated		
Transmission and distribution mains	7,216,185	7,370,737
Maters and installation	248,993	234,223
Office furniture and equipment	1,308	637
Communication equipment	689	1,566
Vehicles and equipment	161,046	125,831
Hydrants	41,026	42,411
Power operated equipment	-	2,262
Structures and improvements	152,958	156,029
Distribution and reservoirs	224,328	232,546
Water treatment equipment	91,615	95,139
Shop and garage equipment	13,482	14,650
Pumping equipment	73,944	82,116
Total capital assets, being depreciated	8,225,574	8,358,147
Business-type activities capital assets, net	$ 8,234,574	$ 8,367,147

During the year ended December 31, 2018, the District acquired assets totaling $95,882. These new assets consisted of new meter sets, a new truck, trailer, and contributed line extension at Deere Point.

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-term and other debt

At the end of the current year, the Caldwell County Water District had total debt of $2,929,000. No new debt was issued in 2018. The loan with Kentucky Infrastructure Authority was paid in full. Long-term debt at December 31, 2018, was as follows:

	2018	2017
Waterworks revenue series 1993	$ 252,500	$ 263,500
Waterworks revenue series 1996	610,000	632,000
Waterworks revenue series 1999	593,000	610,000
Waterworks revenue series 2000	315,500	324,500
Waterworks revenue series 2002	654,000	669,000
Waterworks revenue series 2004	504,000	514,000
KIA loan 1993	-	15,000
Total	$ 2,929,000	$ 3,028,000

Interest expense of $125,508 was incurred during the year ended December 31, 2018.

Additional information on the District's long-term debt can be found in Note 6 of this report.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Caldwell County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Jimmy Littlefield, CEO, Caldwell County Water District, 118 West Market Street, Princeton, KY 42445.

Caldwell County Water District
Statement of Net Position
December 31, 2018

Assets	
Current Assets	
Cash equivalents	$ 623,632
Customer accounts receivable (less allowance for uncollectible accounts of $12,979)	101,217
Unbilled revenue	53,382
Inventory	41,083
Prepayments	16,535
Restricted assets	
Cash equivalents	56,472
Investments	560,382
Total Current Assets	1,452,703
Noncurrent Assets	
Capital assets, net of depreciation	8,234,574
Total noncurrent liabilities	8,234,574
Total Assets	9,687,277
Deferred Outflows of Resources	
Related pensions and other postemployment benefits	238,309
Total Deferred Outflows of Resources	238,309
Liabilities	
Current Liabilities	
Trade accounts payable	32,812
Accrued liabilities	20,801
Accrued interest on debt	62,420
Customers' deposits	55,469
Long-term debt due in one year	88,000
Total Current Liabilities	259,502
Noncurrent Liabilities	
Long-term debt due after one year	2,841,000
Net pension and other postemployment benefits liabilities	717,342
Total Noncurrent Liabilities	3,558,342
Total Liabilities	3,817,844
Deferred Inflows of Resources	
Related to pensions and other post-employment benefits	242,346
Total Deferred Inflows of Resources	242,346
Net Position	
Net investment in capital assets	5,305,574
Restricted for	
Debt service	561,385
Customer deposits	55,469
Prepaid expenses	16,535
Unrestricted	(73,567)
Total Net Position	$ 5,865,396

See accompanying notes and accountant's report.

Caldwell County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2018

Operating Revenue		
Water revenues	$	1,279,599
Other		36,457
Total Operating Revenues		1,316,056
Operating Expenses		
Administrative and general expenses		324,773
Source of supply purchases		296,956
Transmission and distribution expenses		271,221
Depreciation		228,455
Payroll and other taxes		20,023
Customer accounts expenses		12,107
Water treatment		13,267
Bad debts		132
Total Operating Expenses		1,166,934
Operating Income (Loss)		149,122
Nonoperating Revenues (Expenses)		
Investment income		634
Interest on debt		(125,508)
Total Nonoperating Revenue (Expenses)		(124,874)
Net Income Before Capital Contributions		24,248
Capital Contributions		28,175
Change in Net Position		52,423
Net Position-Beginning of Year		6,019,464
Prior period adjustments (See Note 13)		(206,491)
Net Position-End of Year	$	5,865,396

Caldwell County Water District
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows From Operating Activities		
Cash received from customers	$	1,323,784
Cash payments to suppliers for goods and services		(514,953)
Cash payments to employees for services		(357,077)
Net Cash Provided By Operating Activities		451,754
Cash Flows From Capital and Related Financing Activities		
Principal paid on capital debt		(99,000)
Contributed capital		16,000
Acquisition of property, plant, and equipment		(83,706)
Interest paid on debt		(127,327)
Net Cash Used by Capital and Related Financing Activities		(294,033)
Cash Flows From Investing Activities		
Income received on investments		46
Sale of investment securities		257,309
Purchase of investment securities		(241,210)
Net Cash Used By Investing Activities		16,145
Net Increase (Decrease) in Cash Equivalents		173,866
Cash Equivalents-Beginning of Year		506,238
Cash Equivalents-End of Year	$	680,104
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating Income (Loss)	$	149,122
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		228,455
Change in assets and liabilities		
Decrease (increase) in accounts receivable		7,728
Decrease (increase) in inventory		18,628
Decrease (increase) in prepayments		(4,159)
Decrease (increase) in deferred outflows of resources		166,772
Increase (decrease) in accounts payable		(835)
Increase (decrease) in customer deposits		3,942
Increase (decrease) in accrued liabilities		25
Increase (decrease) in deferred pension and OPEB liabilities		(274,579)
Increase (decrease) in deferred inflows of pensions		156,655
Net Cash Provided By Operating Activities	$	451,754
Reconciliation of Total Cash		
Current Assets - Cash	$	623,632
Restricted Assets - Cash		56,472
Total Cash	$	680,104

Non-cash Investing, Capital and Related Financing Activities - None

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Caldwell County Water District, (the District), is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Princeton, Kentucky and primarily serves rural Caldwell County.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State, and Local Governmental Units and by the Financial Accounting Standards board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below:

Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority: the authority to set rates, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, net position, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Position.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Reclassifications
Prior period financial statement amounts have been reclassified to conform to current period presentation. Operating income and net earnings for the prior period were not impacted by the reclassifications.

Budget
The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.

2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2018, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments
Cash and cash equivalents are deposited with First Southern National Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

Prepaid Items
Payments made to vendors for services that will benefit periods beyond December 31, 2018 are recorded as prepaid items.

Post Employment Benefits
Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

Capital Assets
Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Transmission and Distribution Equipment	20 to 65 years
Furniture, Machinery, and Equipment	5 to 10 years
Leasehold Improvements	15 to 25 years
Vehicles	3 to 5 years

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on an analysis of receivables outstanding more than 120 days. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the December 31, 2018 accounts receivable.

Unearned Revenue

The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

Inventory

Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

Restricted Assets

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. 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 needed. See Note 4 for information describing restricted assets.

Estimates

The preparation of the District's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 disaster. During the year ended December 31, 2018, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Bond Discounts/Issuance Costs

The District adopted GASB 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2013. GASB 65 requires that debt issuance costs be expensed in the period they are incurred.

Pensions and Other Postemployment Benefits

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

Net Position

In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets -** Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position -** Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position -** All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category.

Deferred Inflows of Resources: In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

A deferred inflow from pensions and other postemployment benefits results from net differences between expected and actual earnings on pension plan investments. This amount is deferred and will be recognized as a reduction of pension expense over the next four years.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Adoption of New Accounting Pronouncements

GASB Statement No. 75
GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. This Statement replaces Statements No. 45 and 57. The City's management has not yet determined the effect this statement will have on the financial statements. The District reported a prior period adjustment of $206,491 to record their portion of the unfunded liability.

GASB Statement No. 83
GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued November 2016. The provisions of this Statement are effective for periods beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

Recent Accounting Pronouncements
As of December 31, 2018, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 87
GASB Statement No. 87, *Leases*, was issued in June 2017. The provisions of this Statement are effective for periods beginning after December 15, 2019. This Statement will increase the usefulness of government financial statements by required reporting of certain lease liabilities that currently are not required. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 88
GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued in April 2018. The provisions of this pronouncement are effective for periods beginning after June 15, 2018. This pronouncement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The District's management has not yet determined the effect this pronouncement will have on the financial statements.

Subsequent Events
The District has evaluated subsequent events through June 04, 2019, the date which the financial statements were available to be issued.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

2. LEGAL COMPLIANCE

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2018.

3. DEPOSITS AND INVESTMENTS

1. Net Position

The captions on the statement of net position for cash, investments, and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	Cash on Hand	Deposits	Investments	Total
Cash equivalents	$ 550	$ 623,082	$ -	$ 623,632
Investments	-	-	-	-
Restricted assets:				
Cash equivalents	-	56,472	-	56,472
Investments	-	560,382	-	560,382
Total	$ 550	$ 1,239,936	$ -	$ 1,240,486

2. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions were $1,240,486, and the bank balances were $1,272,071. Of the bank balances, the federal depository insurance corporation (FDIC) covers demand deposit accounts totaling $13,690, and time and savings deposits totaling $250,000. The remaining balance of $1,008,381 was covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

3. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer. At December 31, 2018, the District had 100% of its investments in fully collateralized certificates of deposit.

Identification
At December 31, 2018, the District had the following investments:

Investment	Maturities	Fair Value
Certificates of Deposit:		
First Southern National Bank	07/05/2019	$ 342,850
First Southern National Bank	07/05/2019	217,532
Total Investments		$ 560,382

4. RESTRICTED NET POSITION

Restricted Net Assets

	Debt Retirement				
	Depreciation Fund	Sinking Fund	Water Projects	Customer Deposits	Total
Cash equivalents	$ -	$ -	$ 1,003	$ 55,469	$ 56,472
Investments:					
Certificates of deposit	342,850	217,532	-	-	560,382
Totals	$ 342,850	$ 217,532	$ 1,003	$ 55,469	$ 616,854

Restricted Cash for Debt Retirement
The Caldwell County Water District Bonds (All Series) require the District establish a Sinking Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve month period on all of the outstanding bonds. The District has been making the required monthly deposits of $17,994 to service the outstanding debt. At December 31, 2018, the balance of the Sinking Reserve was $217,532.

The Bonds also required that a Depreciation Account be funded monthly. The 1999 Series Bonds require that amounts be deposited over the life of the Bonds. The remaining series require the Depreciation Fund be funded until the balance reaches certain amounts with the maximum amount being $79,800. The District is funding the Depreciation Fund monthly as required, depositing $2,061 per month. At December 31, 2018, the balance of the Depreciation Fund was $342,850.

The District maintains a water project account for use when special projects are being funded. At December 31, 2018, that balance was $1,003. There were no special projects in process.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

5. CAPITAL ASSETS

A summary of proprietary fund property, plant, and equipment at December 31, 2018 for business-type activities follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 9,000	$ -	$ -	$ 9,000
Total capital assets, not being depreciated	9,000	-	-	9,000
Capital assets, being depreciated:				
Transmission and distribution mains	12,504,467	12,176	-	12,516,643
Meters and installation	379,477	22,306	-	401,783
Office furniture and equipment	55,065	950	-	56,015
Communication equipment	16,380	-	-	16,380
Vehicles and equipment	222,516	56,950	-	279,466
Hydrants	83,083	-	-	83,083
Power operated equipment	131,918	-	-	131,918
Structures and improvements	288,287	3,500	-	291,787
Distributions and reservoirs	482,758	-	-	482,758
Water treatment equipment	123,328	-	-	123,328
Shop and garage equipment	30,912	-	-	30,912
Pumping equipment	163,437	-	-	163,437
Total capital assets, being depreciated	14,481,628	95,882	-	14,577,510
Less accumulated depreciation for:				
Transmission and distribution mains	(5,133,731)	(166,726)	-	(5,300,457)
Meters and installation	(145,254)	(7,536)	-	(152,790)
Office furniture and equipment	(54,429)	(279)	-	(54,708)
Communication equipment	(14,814)	(877)	-	(15,691)
Vehicles and equipment	(96,685)	(21,735)	-	(118,420)
Hydrants	(40,673)	(1,385)	-	(42,058)
Power operated equipment	(129,656)	(2,263)	-	(131,919)
Structures and improvements	(132,258)	(6,571)	-	(138,829)
Distributions and reservoirs	(250,210)	(8,219)	-	(258,429)
Water treatment equipment	(28,190)	(3,524)	-	(31,714)
Shop and garage equipment	(16,261)	(1,168)	-	(17,429)
Pumping equipment	(81,320)	(8,172)	-	(89,492)
Total accumulated depreciation	(6,123,481)	(228,455)	-	(6,351,936)
Total capital assets, being depreciated, net	8,358,147	(132,573)	-	8,225,574
Business-type activities capital assets, net	$ 8,367,147	$ (132,573)	$ -	$ 8,234,574

Depreciation charged to income was $228,455.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

6. DEBT OBLIGATIONS

Revenue Bonds Payable

Description	Interest Rate	Maturity Date	Balance 12/31/2018	Due in One Year
Waterworks Revenue Bonds				
Series 1993	5.00%	2033	$ 252,500	$ 11,500
Series 1996	4.875%	2035	610,000	23,000
Series 1999	3.25%	2039	593,000	17,500
Series 1999	4.375%	2039	315,500	9,000
Series 2002	4.375%	2042	654,000	16,000
Series 2004	4.125%	2044	504,000	11,000
Total			2,929,000	$ 88,000
Less current portion			(88,000)	
Long-term portion			$ 2,841,000	

Principal and interest requirements of the revenue bonds payable as of December 31, 2018 are:

Year Ending December 31,	Principal	Interest & Fees	Total
2019	88,000	144,251	232,251
2020	91,500	139,764	231,264
2021	97,000	135,050	232,050
2022	101,000	130,101	231,101
2023	106,000	124,925	230,925
2024-2028	608,000	538,102	1,146,102
2029-2033	772,000	366,678	1,138,678
2034-2038	666,500	177,889	844,389
2039-2043	367,000	44,375	411,375
2044	32,000	800	32,800
Total	$ 2,929,000	$ 1,801,935	$ 4,730,935

Information on individual debt instruments follows:

Series 1993
During 1993, Caldwell County Water District adopted a resolution to issue $410,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1993 dated October 22, 1993 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $205 per month until there is accumulated an amount of at least $24,600. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 5.0% is paid each January 1 and July 1.

Series 1996
During 1996, Caldwell County Water District adopted a resolution to issue $900,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1996 dated November 12, 1996 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $611 per month until there is an accumulated amount of at least $79,800. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 4.875% is paid each January 1 and July 1.

Series 1999
During 1999, Caldwell County Water District adopted a resolution to issue $800,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1999 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $370 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 3.250% is paid each January 1 and July 1.

Series 1999
During 1999, Caldwell County Water District adopted a resolution to issue $420,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2000 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $205 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.375% is paid each January 1 and July 1.

Series 2003
During 2004, Caldwell County Water District adopted a resolution to issue $815,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2003 dated June 17, 2004 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $390 per month until there is accumulated in the Depreciation Fund the sum of at least $46,800. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.375% is paid each January 1 and July 1.

Series 2004
During 2005, Caldwell County Water District adopted a resolution to issue $600,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2004 dated September 27, 2005 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $280 per month until there is accumulated in the Depreciation Fund the sum of at least $33,600. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.125% is paid each January 1 and July 1.

Kentucky Infrastructure Authority Note Payable
In July 2004, Caldwell County Water District entered into an assistance agreement with Kentucky Infrastructure Authority. Assistance in the form of a $150,000 loan was provided for line expansion. The loan was to be repaid in monthly installments beginning in September 2004. The loan was paid in full on June 1, 2018.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Changes in Business-Type Activities Debt

A summary of changes in the business-type activities debt for the year ended December 31, 2018 follows:

	Balance 12/31/2017	Principal Payments	Balance 12/31/2018	Due Within One Year
Business-Type Activities:				
Revenue Bonds Payable	$ 3,013,000	$ 84,000	$ 2,929,000	$ 88,000
Kentucky Infrastructure Authority	15,000	15,000	-	-
Total Business-Type Activities	$ 3,028,000	$ 99,000	$ 2,929,000	$ 88,000

Total interest paid for the year ended December 31, 2018 was $125,508.

7. EMPLOYEES' RETIREMENT PLAN

County Employees' Retirement System

*Plan descriptio*n. The Caldwell County Water District is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous and hazardous positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate.

Under the provisions of Kentucky Revised Statute Sections 61.645, the Board of Trustees (the Board) of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the system are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan, and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570,. and 78.630.

Kentucky Retirement Systems issues a publicly available comprehensive annual financial report containing CERS information that can be obtained at https://kyret.ky.gov.

Benefits provided. CERS provides retirement, health insurance, and death and disability benefits to plan employees and beneficiaries. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Employees are vested in the plan after five years service. For retirement purposes, nonhazardous employees are grouped into three tiers, based on hire date.

Nonhazardous members:

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

Contributions. State statute requires active members to contribute a percentage of creditable compensation based on the tier:

	Required Contributions
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

Employers are required by state statute to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations. For the year ended December 31, 2018, the employer contribution rate was 14.48% and 16.22%, respectively, of member's nonhazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. District employer CERS contributions for the year ended December 31, 2018, were $40,279 which was 100% funded.

Refunds of contributions. Employees who have terminated service as a contribution member of CERS may file an application for a refund of their contributions. Employee accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1981; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For employees participating prior to September 1, 2008, the interest paid is set by the KRS Board and will not be less than 2%, for employees participating on or after September 1, 2008 but before January 1, 2014, interest will be credited at a rate if 2.5%. For employees participating on or after January 1, 2014, interest will be credited at a minimum rate of 4%.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At December 31, 2018, the District reported a liability of $555,436 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's share of contributions to CERS relative to the total contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was .009120%, which was an decrease of 0.003494% from its proportion measured June 30, 2017.

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expenses of $89,700 for the year ended December 31, 2018. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between expected and actual experience	$ 18,117	$ 8,130
Net differences between projected and actual investment earnings	25,828	32,488
Change of assumption	54,282	-
Changes in proportion and differences between employer contributions and share of contributions	79,846	121,029
Contributions subsequent to the measurement date	21,205	-
Totals	$ 199,278	$ 161,647

Deferred Outflows of Resources. The $21,205 reported as deferred outflows of resources related to pensions 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 related to pensions will be recognized in pension expense as follows:

Years Ending	
December 31, 2019	$ 48,306
December 31, 2020	32
December 31, 2021	(28,930)
December 31, 2022	(2,982)
Total	$ 16,426

Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

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

Inflation	2.30%
Salary increases	3.05%, average
Investment rate of return	6.25% for CERS non-hazardous
Healthcare Trend Rates:	
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.

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 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 long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

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

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

Sensitivity of the 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%, 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:

The District's proportionate share of the net pension liability	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
	$ 699,236	$ 555,436	$ 434,956

Payables to the pension plan. At December 31, 2018, the financial statements include $4,176 in contractually required employee and employer contributions primarily for the month ended December 31, 2018. The obligation was paid within prescribed time limits.

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at https://kyret.ky.gov.

Other Postemployment Benefit Plan (OPEB)

*Plan descriptio*n. Under the provision of Kentucky Revised Statute 61.645 and 61.701, the Board of Trustees (the Board) of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan, and the administrative costs incurred by those receiving an insurance benefit, in accordance with provisions of Kentucky Revised Statute Sections 16.510, 61.515, 61.702, 78,520, and 78.630.

The plan issues publicly available financial statements which may be found at https://kyret.ky.gov.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) plan for members that cover all full-time members employed in non-hazardous duty positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plans provide for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Membership in the CERS Non-hazardous Insurance Fund consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Membership Status	
Inactive plan members currently receiving benefits	33,481
Inactive plan members entitled to but not yet receiving benefits	8,230
Active plan members	81,891
Total plan members	123,602

Contributions. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. As of December 31, 2018, the employer contribution rate was 4.70% and 5.26%, respectively of members' non-hazardous salaries. The District contributed $13,054, or 100% off the required contribution to the insurance fund for the year ended December 31, 2018.

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

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

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

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

Inflation	2.30%
Payroll Growth Rate	2.0% CERS Non-hazardous
Salary Increase	3.05% average
Investment Rate of Return	6.25%

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 one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

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

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

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

Implicit Subsidy. The fully-insured premiums KRS pays for the KERS, CERS, and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after measurement date. The District's implicit subsidy for the year ended December 31, 2018, was $2,612.

OPEB Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources. At December 31, 2018, the District reported a net OPEB liability of $161,906 for its proportionate share of the CERS 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 June 30, 2017, rolled forward to June 30, 2018. This method is expected to be reflective in the District's long-term contribution effort. At June 30, 2018, the District's proportion was .009119% for nonhazardous classified employees.

For the year ended December 31, 2018, the District recognized OPEB expense of $11,181. 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
Net difference between projected & actual earnings on pension plan investments	$ -	$ 18,868
Changes of assumptions	32,335	374
Net difference between projected and actual earnings on plan investments	-	11,152
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	50,305
Contributions subsequent to the measurement date, including implicit subsidy	6,696	-
Totals	$ 39,031	$ 80,699

The $6,696 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and the December 31, 2018 implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	
2019	$ (8,937)
2020	(8,937)
2021	(8,937)
2022	(6,771)
2023	(10,897)
Thereafter	(3,885)
	$ (48,364)

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 OPEB liability calculated using the discount rate of present, as well as what the plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.85%) or one percentage point higher (6.85%) than the current rate (5.85%):

	1% Decrease 4.85%	Current Discount Rate 5.85%	1% Increase 6.85%
The District's proportionate share of the net OPEB liability	$ 210,290	$ 161,906	$ 120,692

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate. The following presents the Board's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as, what the Service's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The District's proportionate share of the net OPEB liability	$ 120,541	$ 161,906	$ 210,664

Payables to the OPEB plan. At December 31, 2018, the District had paid its contractually required employee and employer contributions primarily for the month ended December 31, 2018, within prescribed time limits.

8. COMMITMENTS

Purchase Contracts

South Hopkins Water District

On March 3, 2004, the District entered into a long-term contract with South Hopkins Water District for the purchase of treated water. The contract for water is for a period of 40 years and calls for water sales not to exceed 250,000 gallons per month and not to exceed 15,000 gallons in any 24-hour period unless an emergency exists. The rate is equal to the cost of water from Dawson Springs, plus amortization of supply facilities ($0.12 per 1,000 gallons), plus additional plumbing costs, plus 25%. Effective July 1, 2012, the rate changed to $2.48 per 1,000 gallons. Payment is due by the 20th of each month. The District purchased $2,087 from South Hopkins Water District during the year ended December 31, 2018.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

Princeton Water & Wastewater

On October 11, 2002, the District entered into a long-term contract with Princeton Water & Wastewater for the purchase of treated water. The contract for water is for a period of 45 years and calls for water sales not to exceed 12 million gallons per month. The rate increased on November 4, 2010 to $2.706 per 1,000 gallons. Another rate increase of $3.058 per 1,000 gallons was effective June 30, 2014. Payment is due by the 15th of each month. The District purchased $294,869 from Princeton Water & Wastewater during the year ended December 31, 2018.

Caldwell County Fiscal Court

On April 8, 2010, the District entered into a lease agreement with the Caldwell County Fiscal Court to lease the premises located at 118 W. Market Street. The term of this lease is for ten (10) years, ending on March 31, 2020, subject however to continuation of four (4) ten (10) year consecutive terms at the mutual agreement of both parties. There are no monetary terms associated with the lease; however, the District is responsible for taxes and insurance on the property.

9. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2017 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

10. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Caldwell County, Kentucky. For the year ended December 31, 2018, the revenues from these sources totaled $1,279,599. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

11. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employees, with one (1) year continuous service, are entitled to vacation pay according to the following schedule:

1 to 3 years	1 week
3 to 10 years	2 weeks
10+ years	3 weeks

Employees must use vacation within the twelve month period after the time is earned. Upon termination of employment, an employee will be paid for all unused vacation leave. The liability for unused vacation time at December 31, 2018 was $10,012.

The District's policy on sick pay states that employees will be granted one sick day per month. During the employee's probationary period sick leave may be earned but not taken. Sick leave is forfeited upon termination of employment. The District's policy is to recognize the cost of compensated medical leave when actually paid to employees.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2018

12. LITIGATION

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

13. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended December 31, 2018, the District implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. GASB Statement No. 75 changed how governments measure and report long-term obligations and annual costs associated with other postemployment benefits they provide. Under the new standard, GASB requires that cost-sharing governments report a net 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.

Cumulative effect of change in accounting principle:

Net OPEB Liability	$ (253,585)
Deferred outflows of resources related to OPEB	55,178
Contributions made after the measurement date	5,193
Deferred inflows of resources related to OPEB	(13,277)
Cumulative effect of change in accounting principle	$ (206,491)

REQUIRED SUPPLEMENTARY INFORMATION

Caldwell County Water District
Statement of Revenues, Expenses, and
Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2018

	Budgeted Amounts			Variance with Final Budget Positive
Revenues	Original	Final	Actual	(Negative)
Water revenues	$ 1,258,000	$ 1,258,000	$ 1,279,599	$ 21,599
Other	29,200	29,200	36,457	7,257
Total Operating Revenues	1,287,200	1,287,200	1,316,056	28,856
Operating Expenses				
Administrative and general expenses	281,546	281,546	324,773	(43,227)
Source of supply purchases	350,000	350,000	296,956	53,044
Transmission and distribution expenses	302,750	302,750	271,221	31,529
Depreciation	81,408	225,310	228,455	(3,145)
Payroll and other taxes	20,390	20,390	20,023	367
Customer accounts expenses	12,700	12,700	12,107	593
Water treatment	13,950	13,950	13,267	683
Bad debt expense	1,000	1,000	132	868
Total Operating Expenses	1,063,744	1,207,646	1,166,934	40,712
Operating Income (Loss)	223,456	79,554	149,122	69,568
Nonoperating Revenues (Expenses)				
Investment income	300	300	634	334
Interest on debt	(129,170)	(129,170)	(125,508)	3,662
Total Nonoperating Revenue (Expenses)	(128,870)	(128,870)	(124,874)	3,996
Net Income before Capital Contributions	94,586	(49,316)	24,248	73,564
Capital Contributions	22,000	22,000	28,175	6,175
Change in Net Position	$ 116,586	$ (27,316)	52,423	$ 79,739
Net Position-Beginning of Year			6,019,464	
Prior Period Adjustments (See Note 13)			(206,491)	
Net Position-End of Year			$ 5,865,396	

Caldwell County Water District
Schedule of the Proportionate Share of the Net Pension Liability
For the Year Ended December 31, 2018

County Employee Retirement System
Last Five Years

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.009120%	0.012614%	0.008170%	0.008349%	0.008651%
Employer's proportionate share of the net pension liability (asset)	$ 555,436	$ 738,336	$ 402,436	$ 358,949	$ 280,671
Employer's covered-employee payroll	$ 226,621	$ 246,805	$ 271,488	$ 193,784	$ 204,010
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	245.09%	299.16%	148.23%	185.23%	137.58%
Plan fiduciary net position as a percentage of the total pension liability (1)	53.54%	53.30%	55.50%	59.97%	66.80%

Note to Schedule: *Changes in assumptions* - In the fiscal year 2018, the CERS Non-Hazardous investment rate and discount rate both decreased from 7.50% to 6.25%, the inflation rate decreased from 3.25% to 2.30%, and the estimated salary increases decreased from 4.00% to 3.05%. In the fiscal year 2016, the CERS Non-Hazardous investment rate and discount rate both decreased from 7.75% to 7.50%, the inflation rate decreased from 3.50% to 3.25%, and the estimated salary increases decreased from 4.50% to 4.00%. Additionally, the mortality tables changed from the 1983 and 1994 Group Annuity Mortality Tables to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (adjusted for males and females).

Note to Schedule: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

Note to Schedule: This schedule is based on the measurement date (June 30, 2018) of the collective net pension liability.

(1) This will be the same percentage for all participant employers in the CERS plan.

Caldwell County Water District
Schedule of Pension Contributions
For the Year Ended December 31, 2018

County Employee Retirement System
Last Five Years

	2018	2017	2016	2015	2014
Contractually required contribution	$ 40,279	$ 46,656	$ 48,864	$ 44,538	48,420
Contributions in relation to the contractually required contribution	40,279	46,656	48,864	44,538	48,420
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Employer's covered-employee payroll	$ 226,621	$ 246,805	$ 271,488	$ 193,784	$ 204,010
Contribution as a percentage of covered-employee payroll	14.48%/ 16.22%	13.95%/ 14.48%	12.42%/ 13.95%	12.75%/ 12.42%	13.74%/ 12.75%

Note to Schedule: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

Note to Schedule: Amounts presented were determined as of June 30, 2018.

Caldwell County Water District
Schedule of the Proportionate Share of the Net OPEB Liability
For the Year Ended December 31, 2018

County Employee Retirement System
Last Two Years

	2018	2017
Employer's proportion share of the net OPEB liability (asset)	0.009119%	0.012614%
Employer's proportion share of the net OPEB liability (asset)	$ 161,906	$ 253,585
Employer's covered employee payroll	$ 226,621	$ 246,805
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	71.44%	102.75%
Plan fiduciary net position as a percentage of the total OPEB liability (1)	57.62%	52.40%

Note to Schedule: *Changes in assumptions* - In the fiscal year 2018, the CERS Non-Hazardous investment rate decreased from 7.50% to 6.25%, the discount rate decreased from 6.89% to 5.84%, the inflation rate decreased from 3.25% to 2.30%, and the estimated salary increases decreased from 4.00% to 3.05%.

Note to Schedule: This schedule is based on the measurement date (June 30, 2018) of the collective net OPEB liability.

Note to Schedule: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

(1) This will be the same percentage for all participant employees in the CERS plan.

Caldwell County Water District
Schedule of OPEB Contributions
For the Year Ended December 31, 2018

County Employee Retirement System
Last Two Years

	2018	2017
Contractually required contributions	$ 13,054	$ 11,641
Contributions in relation to the contractually required contributions	13,054	11,641
Contribution deficiency (excess)	$ -	$ -
Employer's covered employee payroll	$ 226,621	$ 246,805
Contributions as a percentage of covered employee payroll	4.70% / 5.26%	4.73% / 4.70%

Notes to Schedule: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the District will present information as it becomes available.

Note to Schedule: Amounts presented were determined as of June 30, 2018.

OTHER SUPPLEMENTARY INFORMATION

Caldwell County Water District
Detail Schedule of Operating Expenses
For the Year Ended December 31, 2018

		2018
General operating expenses		
Retirement	$	100,881
Salaries & wages		88,331
Employee insurance		35,188
Utilities		20,778
Legal & professional		20,655
Insurance		19,509
Fuel		13,509
Office supplies		5,925
Dues & subscriptions		5,202
Other contract services		4,276
Miscellaneous		4,258
Uniforms		3,112
License fees		2,755
Training & education		236
Advertising		158
Total general operating expenses		324,773
Water purchases		296,956
Transmission and distribution expenses		
Salaries & wages		181,551
Supplies & materials		48,090
Contract labor - meter reading		24,188
Repairs & maintenance		11,469
Tools and equipment		5,271
Equipment rent		652
Total water expenses		271,221
Depreciation expense		228,455
Payroll and other taxes		20,023
Customer accounts expenses		
Postage		9,837
Credit card fees		2,270
Total customer accounts expenses		12,107
Water treatment		
Chemicals		6,831
Testing		6,436
Total water treatment		13,267
Bad debt expense		132
Total operating expenses	$	1,166,934

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

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
Caldwell County Water District
Princeton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Caldwell County Water District, as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the Caldwell County Water District's basic financial statements, and have issued our report thereon dated June 4, 2019.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2018-1).

140 COMMERCE ST.
PO BOX 909
EDDYVILLE, KY 42038
270-388-4114 OFFICE
270-388-2363 FAX

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Caldwell County Water District'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 that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we have reported to management of the Caldwell County Water District in a separate letter dated June 4, 2019.

Caldwell County Water District's Response to Findings
Caldwell County Water District's response to findings identified in our audit described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Jessica Daniel, CPA

Eddyville, Kentucky
June 4, 2019

Caldwell County Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2018

2018-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We agree with the finding and have put in place certain compensating controls to help alleviate exposure. A third party accounting firm assists in bookkeeping, payroll, and preparing monthly reports for Board review.