CARROLL COUNTY WATER DISTRICT NO. 1

BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION, AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2018 and 2017

CARROLL COUNTY WATER DISTRICT NO. 1
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORTS

Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Carroll County Water District No. 1
Ghent, Kentucky 41045

Report on the Financial Statements

We have audited the accompanying financial statements of Carroll County Water District No. 1 as of and for the years 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Carroll County Water District No. 1, as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 17 to the financial statements, in 2018 the District adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 required supplemental information listed in the Table of Contents on pages 3 through 8, and pages 37 through 40 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 our report dated June 27, 2019, on our consideration of Carroll County Water District No. 1'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 solely 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 effectiveness of the Carroll County Water District No. 1's 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 Carroll County Water District No. 1's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

June 27, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Discussion and Analysis of Carroll County Water District #1 financial performance provides an overview of the District's financial activities for the fiscal year ending December 31, 2018. It should be read in conjunction with the District's financial statements and supplementary information.

Financial Statements Overview

This annual financial report consists of three major parts: required supplementary information, basic financial statements, and supplementary information. Included with the financial statement are notes that explain in more detail some of the information in the financial statements. Additional to these notes is a section of supplementary information in support of the information in the financial statements. The figure below illustrates how the annual financial report is arranged.

- Annual Financial Report
  - Required Supplementary Information
  - Basic Financial Statements
    - Balance Sheet (Statement of Net Position)
    - Income Statement (Statement of Revenues)
    - Statement of Cash Flows
    - Notes to Basic Financial Statements
  - Additional Information

The Balance Sheet or Statement of Net Position includes all of the District's assets and liabilities and provides a basis for evaluating the overall health and financial flexibility of the District.

The Income Statement or the Statement of Revenues, Expenses, and Changes in Fund Net Position account for all the current year's revenues and expenses. This statement is a ready reflection of the success of the District's operations over the past year and shows at a glance whether or not the District has recovered all of its costs through its water rates and other charges.

The Statement of Cash Flows primary purpose is to provide information about the District's cash receipts, payments, and net changes in cash resulting from its operations, investing activities and financing activities and provides further information on the sources and uses of cash and the changes in the cash balances during the operating year.

Financial Highlights

- Total assets decreased by $148,850 to $12,879,005 in 2018. This decrease is explained by the cost of depreciation being higher than the net capital additions during 2018.

- Operating Revenues increased by $46,051 or 3.0% to $1,858,960 in 2018 due to slightly higher water sales and miscellaneous income in 2018.

- Operating Expenses were up $109,395 in 2018 when compared to 2017. This increase is due to higher cost associated with expenses in all categories except depreciation, employee benefits, and regular fees. Maintenance costs were $80,371 higher in 2018 but was offset some by $38,501 lower labor costs.

- Net Income before Capital Contributions for 2018 as compared to the previous year was down $41,770. This is primarily due to only slight increase in water sales when compared to previous year, and higher costs associated with maintenance and retirement plan expense.

Statement of Net Position

During 2018, additions to the asset base were $91,147, lower than the additions in 2017. Primarily due to a lower level of capital improvement projects and less equipment purchases during the year. The depreciation for the year being basically the same as the prior year. Overall there was a $148,850 decrease in total assets when compared to the prior year.

	2018	2017	2016	Difference 18-17	%
Utility Plant	$9,405,654	$9,693,684	$9,898,723	(288,030)	(3.0)
Current Assets	$2,080,380	$1,976,157	$1,892,512	104,223	5.3
Other Non-Current Assets	$1,392,971	$1,358,014	$1,327,389	34,957	2.6
Total Assets	$12,879,005	$13,027,855	$13,118,624	(148,850)	(1.14)

Deferred Outflows/Inflows of Resources

- This MDA is the fourth to deal specifically with CERS retirement Liability and the first for health insurance (OPEB) liability. The District must plan to be prepared to assume liability for the pension plan that historically has been a state responsibility. To the date, there is no clear path of how a SPGE is to absorb this liability as it is not allowed by KY PSC in its rate structure. These outflows and inflows are neither assets nor liabilities but represent allocations that may impact future pension and Other Post Employment Benefits (OPEB) expenses. Increases in

Income Statement

Operating Revenues for 2018 were up when compared to 2017 due to higher water sales. Operating expenses for 2018 were up by $109,395 when compared to 2017 due to higher labor and materials costs associated with severe weather and retirement plan expense. Non-operating expenses for 2018 were virtually unchanged compared to 2017. The net income for the year was up by $113,693 due to higher water sales in 2018 compared to 2017 and increased capital contributions including FEMA Disaster Recovery awards.

	2018	2017 Restated	2016	Difference (18-17) (Favorable)	%
Operating Revenue	$1,858,960	$1,812,909	$1,918,026	($46,051)	(2.5)
Operating Expense	$1,823,926	$1,714,531	$1,547,591	$109,395	6.4
Net Operating Revenue	$35,034	$98,378	$370,435	$63,344	(64.4)
Non-Operating Expenses	$181,448	$203,022	$210,888	($21,574)	(10.6)
Capital Contributions	$200,933	$45,470	$53,677	($155,463)	(341.9)
Special Item			-		
Net Income	$54,519	($59,174)	$213,224	($113,693)	(192.1)

Statement of Cash Flows

Cash from Operating Activities was down by 17.8% when compared to 2017, as customer receipts slightly increased. However payments to suppliers and employees increased mainly due to failures from severe weather in 2018 resulting in a 1.5% decrease in cash at years end.

	2018	2017	2016	Difference (18-17) (Unfavorable)	%
Cash from Operating Activities (Net)	$567,849	$690,680	$853,911	($122,831)	(17.8)
Cash from Non-Capital Financing Activities Net	$0	$0	$0	-	-
Cash from Capital & Related Net Financing Activities	($600,903)	($608,751)	$(878,064)	$7,848	(1.3)
Cash from Investing Activities	$4,559	$1,894	$1,345	$2,665	140.7
Change in Cash	($28,495)	$83,823	$(22,808)	($112,318)	134.0
Cash Balance, Beginning of Year	$1,936,898	$1,853,075	$1,875,883	$83,823	4.5
Cash Balance, End of Year	$1,908,403	$1,936,898	$1,853,075	($28,495)	(1.5)

Debt Administration
As of 2018 year's end, the District had outstanding Bond debt of $5,010,500 and Notes Payable of $899.360 for a total of $5,909,860 in Long Term Debt. The Debt Coverage Ratio for 2018 was 1.25, a level that is sufficient not only to pay debt but also allow sufficient allocation to Depreciation and other capital improvement projects.

	2018	2017	2016	Difference (18-17)	%
Total Bonds Payable	$5,010,500	$5,161,000	$5,305,500	(150,500)	(2.9)
Note Payable	$899,359	$1,013,016	$1,121,127	(113,657)	(11.2)
Income Available for Debt Service	$858,454	$704,875	$880,826	(119,421)	(16.9)
Total Debt Service	$467,493	$470,694	$535,562	(5,033)	(1.1)
Debt Coverage	1.25	1.49	1.53	(.24)	(16.1)

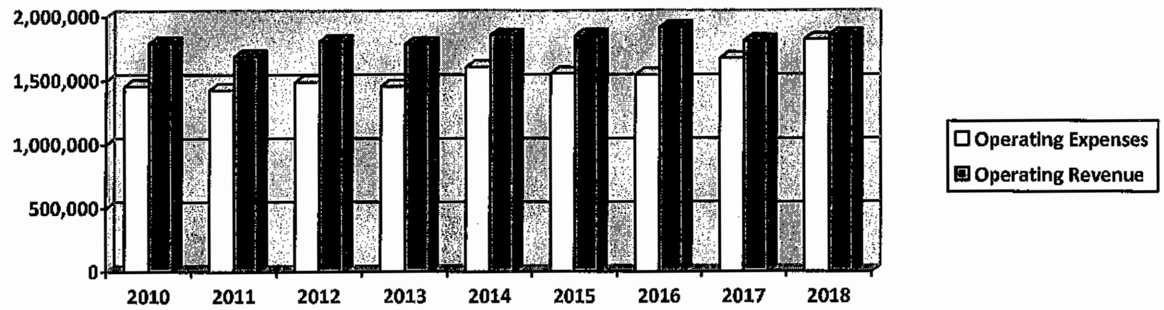
Economic Outlook
The addition of Cabot Corporation going into operation at some point in the year and expansions of existing steel plants should increase industrial sales. No major increase in residential and commercial revenues are expected The two diagrams on the next page are offered to give a picture of the relative health of the Water District. The graph of the Operating Expenses including Depreciation versus Operating Revenue presents a view of monies remaining to cover debt after Operating Expenses have been paid. You will note the numbers for 2018 reflect a reduced level in Revenue versus Expenses as was expected for this particular year. The graph titled Operating Ratio depicts Total Operating Expenses less Depreciation divided by Total Revenues and is a measure of overall efficiency of the District. Management feels that trends in this Operating Ratio reflect the health of the District. In the healthiest operations this ratio will remain constant or reduce over time. You will note that this ratio was higher for the 2018 year. Management is forecasting that CCWD will need a rate increase within three years to compensate for inflation, unusual weather trends and to address changes in staff requirements.

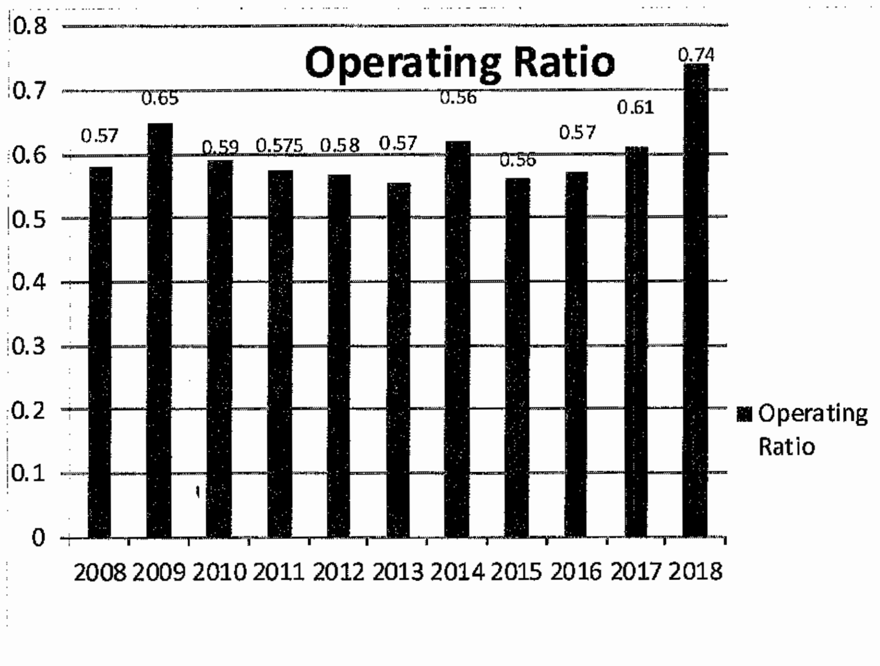
In 2018, within the state legislation session, they created a cap on the CERS employer's contribution maximum rate increase up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028. This will continue to add cost to operations as other liabilities are being transferred to the District. If this trend continues a rate increase will become necessary in order to maintain the required debt coverage especially if the retirement and health pension liabilities is to be included.

CCWD experienced many system failures due to a catastrophic weather event that was eventually declared a federal disaster. The district will receive 87% reimbursements on those certain expenditures from FEMA.

Contacting District Management
This financial report is designed to provide an easy to read general overview of the District's finances to its ratepayers, creditors, or public at large. It also provides accountability for the money received by the District. Questions concerning this report may be directed to the General Manager of the District at 205 Main Cross Street in Ghent, Kentucky 41045, phone 502-347-9500.

Operating Expenses vs. Operating Revenue





CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2018 and 2017

	2018	As Restated 2017
ASSETS		
Current Assets:		
Cash, Including Time Deposits	$ 1,522,968	$ 1,568,943
Accounts Receivable (Net)	174,864	166,898
Other Receivables	127,888	21,662
Inventory	210,303	178,523
Prepaid Expense	44,357	40,131
Total Current Assets	$ 2,080,380	$ 1,976,157
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	$ 1,390,694	$ 1,357,817
Interest Receivable	2,177	97
Capital Assets (Net)	9,405,654	9,693,684
Deposits	100	100
Total Noncurrent Assets	$ 10,798,625	$ 11,051,698
Total Assets	$ 12,879,005	$ 13,027,855
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	$ 279,472	$ 288,368
Attributable to Employee OPEB Plan	92,645	83,959
Total Deferred Outflows of Resources	$ 372,117	$ 372,327
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 30,729	$ 34,820
Accounts Payable - Capital Assets	-	45,455
Accrued Compensated Absences	39,906	38,024
Accrued Wages	4,586	2,396
Accrued Payroll Taxes/Employee Withholding	13,750	16,672
Utility Tax Payable	3,870	3,865
Sales Tax Payable	2,879	2,637
Deferred Revenues	-	25,092
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	69,694	70,373
Revenue Bonds Payable	157,000	150,500
Note Payable	116,120	113,601
Total Current Liabilities	$ 438,534	$ 503,435
Noncurrent Liabilities:		
Revenue Bonds Payable	$ 4,853,500	$ 5,010,500
Note Payable	783,239	899,415
Net Pension Liability	1,094,550	976,507
Net OPEB Liability	319,089	335,385
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	30,087	29,712
Total Noncurrent Liabilities	$ 7,080,465	$ 7,251,519
Total Liabilities	$ 7,518,999	$ 7,754,954
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	$ 80,044	$ 90,538
Attributable to Employee OPEB Plan	60,533	17,561
Unamortized Bond Premiums	2,031	2,133
Total Deferred Inflows of Resources	$ 142,608	$ 110,232
NET POSITION		
Net Investment in Capital Assets	$ 3,493,764	$ 3,493,636
Restricted for Debt Service	1,293,090	1,257,829
Unrestricted	802,661	783,531
Total Net Position	$ 5,589,515	$ 5,534,996

See accompanying notes to the basic financial statements.

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2018 and 2017

Operating Revenues:		**2018**		**As Restated 2017**
Charges for Services:				
Water Charges (Net)	$	1,734,153	$	1,712,937
Bulk Water Charges		39		60
Total Charges for Services	$	1,734,192	$	1,712,997
Other Charges and Miscellaneous:				
Billing Service Charges	$	37,544	$	39,725
Reconnect and Disconnect Charges		42,950		41,321
Miscellaneous		44,274		18,866
Total Other Charges and Miscellaneous	$	124,768	$	99,912
Total Operating Revenues	$	1,858,960	$	1,812,909
Operating Expenses:				
Accounting and Collecting Labor	$	115,048	$	102,014
Administrative Per Diem		16,050		16,200
Administrative Salaries		118,317		116,158
Depreciation Expense		444,672		448,323
Employee Benefits		99,806		110,973
Employee Licenses		360		206
Insurance		38,083		36,035
Maintenance of Mains/Distribution System		225,735		194,859
Office Supplies and Expense		58,867		55,631
Operating Labor		212,651		163,156
Other Interest Expense		132		122
Payroll Taxes		36,129		34,658
Professional Services		14,669		13,990
Purchased Power		160,565		157,157
Purchased Water		12,478		12,471
Regulatory Fees		4,157		4,348
Repairs & Maintenance		13,116		6,278
Retirement Plan Expense		185,178		180,172
Transportation Expense		29,586		23,213
Uniforms		9,845		8,908
Utilities & Telephone		14,095		16,832
Water Treatment Expense		14,387		12,827
Total Operating Expenses	$	1,823,926	$	1,714,531
Operating Income	$	35,034	$	98,378
Nonoperating Revenue (Expense):				
Investment Income	$	24,320	$	14,173
Interest Expense		(205,768)		(218,187)
Gain (Loss) on Sale/Abandonment of Fixed Assets		-		992
Total Nonoperating Revenue (Expense)	$	(181,448)	$	(203,022)
Net Income (Loss) Before Contributions	$	(146,414)	$	(104,644)
Capital Contributions		200,933		45,470
Special Item				
Department of Transportation Line Relocation Project				
Income	$	-	$	524,411
Expense		-		(524,411)
Total Special Item	$	-	$	-
Change in Net Position	$	54,519	$	(59,174)
Net Position - (As Previously Stated)	$	5,534,996	$	5,835,919
Restatement - GASB Statement 75		-		(241,749)
Net Position - As Restated	$	5,534,996	$	5,594,170
Net Position - End of Year	$	5,589,515	$	5,534,996

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	As Restated 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 1,851,616	$ 1,825,331
Payments to Suppliers	(266,288)	(231,920)
Payments to Employees	(458,144)	(399,986)
Other Receipts (Payments)	(559,335)	(502,745)
Net Cash Provided (Used) by Operating Activities	$ 567,849	$ 690,680
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds Industrial Line Relocation	$ -	$ 524,411
Costs Associated with Line Relocation	-	(524,411)
Net Cash Provided (Used) by Non Capital Financing Activities	$ -	$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	$ 64,234	$ 34,120
Purchase of Capital Assets (including Work in Process)	(205,631)	(182,687)
Principal Paid on Capital Debt	(264,157)	(252,611)
Interest Paid on Capital Debt	(206,549)	(219,915)
Proceeds Build America Bonds Interest Reimbursement	11,200	11,350
Proceeds Sale of Capital Assets	-	992
Net Cash Provided (Used) by Capital and Related Financing Activities	$ (600,903)	$ (608,751)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	$ (15,397)	$ (12,277)
Interest Received	19,956	14,171
Net Cash Provided (Used) by Investing Activities	$ 4,559	$ 1,894
Net Increase (Decrease) in Cash and Cash Equivalents	$ (28,495)	$ 83,823
Balances-Beginning of the Year	1,936,898	1,853,075
Balances-End of the Year	$ 1,908,403	$ 1,936,898

	Balances Per December 31, 2018 Statement of Net Position	Balances Per December 31, 2018 Statement of Cash Flows
Cash	$ 996,944	$ 996,944
Time Deposits	526,024	-
Restricted Cash	911,459	911,459
Restricted Time Deposits	479,235	-
Total Cash and Cash Equivalents, End of Year	$ 2,913,662	$ 1,908,403

	Balances Per December 31, 2017 Statement of Net Position	Balances Per December 31, 2017 Statement of Cash Flows
Cash	$ 1,050,976	$ 1,050,976
Time Deposits	517,967	-
Restricted Cash	885,922	885,922
Restricted Time Deposits	471,895	-
Total Cash and Cash Equivalents, End of Year	$ 2,926,760	$ 1,936,898

See accompanying notes to the basic financial statements.

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	As Restated 2017
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ 35,034	$ 98,378
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	444,672	448,323
Pension Expense	94,134	100,742
OPEB Expense	40,300	57,432
Change in Assets and Liabilities:		
Receivables, Net	(7,966)	9,104
Inventories	(31,780)	(17,093)
Prepaid Expenses	(4,226)	(229)
Accounts Payable	(4,091)	(7,268)
Accrued Wages	2,190	354
Utility Tax Payable	5	(227)
Sales Tax Payable	242	(580)
Accrued Payroll Taxes & Employee Benefits	(2,922)	431
Customer Meter Deposits Payable	375	4,125
Accrued Compensated Absences	1,882	(2,812)
Net Cash Provided by Operating Activities	$ 567,849	$ 690,680

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2018, Carroll County Water District No. 1 had receivables of $125,498, associated with FEMA reimbursements.

At December 31, 2017, Carroll County Water District No. 1 had receivables of $21,556, contract payables of $45,455 and unearned revenues of $25,092 associated with the U.S. 42 line relocation and upgrade project.

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of entity: Carroll County Water District No. 1 is a rural water company serving approximately 3,000 customers in Carroll, Owen and Gallatin Counties, Kentucky of which 164 are considered commercial and 36 are industrial users, or large users. The District is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of Carroll County through its fiscal court in 1960 and began operations in 1965.

In evaluating how to define Carroll County Water District No. 1 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (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.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by bond agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory: Inventories are stated at latest cost.

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	10-35 years
- Distribution System	10-45 years
- Wells	35 years
- Machinery & Equipment	5-30 years

Debt Issuance Costs: Such costs are expensed as incurred.

Compensated Absences: See Note 9 for the District's policy on vacation and sick pay.

Pension: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Post Employment Benefits Other Than Pensions: For purposes of measuring the net liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employee's Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Deferred Outflows of Resources and Deferred Inflows of Resources: Deferred Outflows of Resources and Deferred Inflows of Resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

Income Taxes: The Carroll County Water District No. 1 is not subject to income taxes.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. Tap on fees of $64,234 and $34,120 were received by the District for the years ended December 31, 2017, and 2016, respectively. Capital contributions of $11,200 and $11,350 Build America Bonds interest reimbursements were received by the District during the years ended December 31, 2018, and 2017. Additionally, capital contributions arising from FEMA disaster assistance of $125,499 were awarded in the year ended December 31, 2018.

Net position: Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Carroll County Water District No. 1 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was to be established with the District's original bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the outstanding bond issues is as follows:

	one sixth (1/6) of the next semiannual interest payment
+	one twelfth (1/12) of next annual principal payment
=	monthly transfer

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2018 and 2017.

Under the bond resolution of the original 1965 bonds (now redeemed), a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. Under the provisions of the 1994 Bond Resolution, an adjustment was required to be made in the Depreciation Fund requirements upon the issuance of any bonds on a parity with the Series 1994 bonds. Therefore, with the issuance of subsequent bonds, additional transfer requirements were established as follows:

Series	Transfer Due	Accumulation Required
1999 A & B	$2,090/month	$250,800
2005 A & B	525/month	63,000
2010	510/month	61,200
Total		$375,000

The 1994, 1997 A & B, and 1999 Series A & B issues were refunded with the issuance of the 2012B Bond Issue. The issue of 2012 ratified and confirmed the transfers required above to continue in force.

When the required balance of $375,000 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

Under the District's debt agreement with the Kentucky Infrastructure Authority (KIA) a R&M Reserve is to be funded. $7,500 is to be transferred annually into the reserve until a balance of $75,000 is obtained.

A separate reserve has not been established for the Kentucky Infrastructure Authority reserve. However, the District has funded reserve accounts sufficient to fund the maximum accumulation mandated in the 1999 bond agreement plus the KIA's required balance at December 31, 2018 and 2017. The District transferred the monthly amounts required under the Series 2005 A and B bond agreement, and the additional $510 payment required by the 2010 Series bond agreement during 2018 and 2017.

After the required monthly transfers to the respective bond and interest account, and depreciation account, a transfer of one-twelfth (1/12) of the annual budgeted expenditures for the District is to be transferred to an operation and maintenance account for making expenditures for the District. Sixty days following year end, all remaining funds in the revenue account in excess of two (2) months operating budget requirements are to be transferred to the depreciation account.

At December 31, 2018 and 2017 additional transfers were not necessary.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities, including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2018 and 2017, in accordance with the District's policy, $621,137 and $610,818 respectively, of the District's deposits were covered by federal depository insurance and $2,314,206 and $2,334,638 respectively, were collateralized by securities held by the pledging financial institution's agent in the District's name. Thus the District had no deposits that were exposed to custodial credit risk.

At December 31, 2018 and 2017, the District's deposits were as follows:

December 31, 2018

Type of Deposit	Total Bank Balance	Total Carrying Value
Demands Deposits	$ 1,930,084	$ 1,908,303
Time/Savings Deposits	1,005,259	1,005,259
Total Deposits	$ 2,935,343	$ 2,913,562

December 31, 2017

Type of Deposit	Total Bank Balance	Total Carrying Value
Demands Deposits	$ 1,955,594	$ 1,936,798
Time/Savings Deposits	989,862	989,862
Total Deposits	$ 2,945,456	$ 2,926,660

Reconciliation to Statement of Net Position:

	December 31, 2018	December 31, 2017
Unrestricted Cash	$ 1,522,968	$ 1,568,943
Restricted Cash, Including Time Deposits	1,390,694	1,357,817
Less: Cash on Hand	(100)	(100)
	$ 2,913,562	$ 2,926,660

NOTE 4 – RESTRICTED ASSETS

Restricted assets consists of the following:

	December 31, 2018	December 31, 2017
Restricted Cash and Time Deposits		
Bond and Interest Sinking Account	$ 363,602	$ 353,320
Depreciation Reserve Account	997,005	974,785
Customer Deposits	30,087	29,712
Total	$ 1,390,694	$ 1,357,817
Interest Receivable - Depreciation Reserve Accounts	$ 2,177	$ 97

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of $4,914 and $2,522 at December 31, 2018 and 2017, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full) or one year pending a satisfactory payment record. Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current market rate. Accrued interest is paid annually and when the deposit is refunded.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2018 and 2017, was as follows:

	Balance at January 1, 2018	Additions	Disposals	Balance at December 31, 2018
Land & Land Rights	$ 311,460	$ -	$ -	$ 311,460
Structures & Improvements	325,927	-	-	325,927
Distribution System	15,035,198	71,284	-	15,106,482
Wells	525,978	13,935	-	539,913
Machinery & Equipment	802,811	71,423	(33,137)	841,097
Totals at Historical Cost	$ 17,001,374	$ 156,642	$ (33,137)	$ 17,124,879
Less: Accumulated Depreciation				
Structures & Improvements	$ 156,535	$ 7,885	$ -	$ 164,420
Distribution System	6,328,611	371,855	-	6,700,466
Wells	304,844	15,202	-	320,046
Machinery & Equipment	517,700	49,730	(33,137)	534,293
Total Accumulated Depreciation	$ 7,307,690	$ 444,672	$ (33,137)	$ 7,719,225
Capital Assets, Net	$ 9,693,684	$ (288,030)	$ -	$ 9,405,654

	Balance at January 1, 2017	Additions	Disposals	Balance at December 31, 2017
Land & Land Rights	$ 311,460	$ -	$ -	$ 311,460
Structures & Improvements	325,927	-	-	325,927
Distribution System	14,834,429	200,769	-	15,035,198
Wells	525,978	-	-	525,978
Machinery & Equipment	778,883	47,020	(23,092)	802,811
Totals at Historical Cost	$ 16,776,677	$ 247,789	$ (23,092)	$ 17,001,374
Less: Accumulated Depreciation				
Structures & Improvements	$ 148,563	$ 7,972	$ -	$ 156,535
Distribution System	5,945,852	382,759	-	6,328,611
Wells	289,816	15,028	-	304,844
Machinery & Equipment	493,723	42,564	(18,587)	517,700
Total Accumulated Depreciation	$ 6,877,954	$ 448,323	$ (18,587)	$ 7,307,690
Capital Assets, Net	$ 9,898,723	$ (200,534)	$ (4,505)	$ 9,693,684

NOTE 7 – CAPITAL ASSETS (Continued)

Included under the District's Plant Assets at December 31, 2018 and 2017, respectively, were $1,889,311 and $1,335,577 of fully depreciated assets. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated $444,672 and $448,323 in 2018 and 2017, respectively.

NOTE 8 – LONG-TERM DEBT

Notes Payable:

The Carroll County Water District No. 1 entered into interlocal agreements under which it was the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Focus on Core Mission and Infrastructure Project and the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities was the recipient of the loan proceeds. It was also the entity overseeing the engineering and construction contracts, and other general costs associated with the projects. Carroll County Water District No. 1, under interlocal agreements with the City of Carrollton/Carrollton Utilities, agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. The District chose to repay the total debt associated with the Focus on Core Mission and Infrastructure Project in December, 2016.

On November 30, 2017, the Public Service Commission approved the refinancing of the Kentucky Infrastructure Authority Loan to lower the interest rate charged from 3% to 2.25%. The principal balance and payment schedule remained unchanged. The refinancing will save the District $25,371 over the life of the loan. The net present value of the interest savings is $23,396.

As of December 31, 2018 and 2017, the long-term debt payable consisted of the following:

Notes Payable:

	December 31, 2018	December 31, 2017
Kentucky Infrastructure Authority represents a 20 year loan, original principal of $1,908,662, secured by water revenues. Interest was charged at 3% per annum until November 30, 2017 when the interest rate was reduced to 2.25%. Payments are made semi-annually. Final maturity is December 1, 2024.	$ 693,484	$ 800,281
Carrollton Utilities (Carroll County Interconnect Project) represents a 30 year loan as stipulated in an interlocal agreement. Interest is charged at .75% per annum. In addition, a loan servicing fee of .25% of the annual outstanding loan balance is payable as a part of each interest payment. The original principal balance was $301,721 before the note was reduced by 25% principal forgiveness of $75,430. Semi-annual payments with final maturity December 1, 2045.	205,875	212,735
Total Notes Payable	$ 899,359	$ 1,013,016
Current Portion	$ 116,120	$ 113,601
Noncurrent Portion	783,239	899,415
Total Notes Payable	$ 899,359	$ 1,013,016

NOTE 8 – LONG-TERM DEBT (Continued)

Bonds Payable:

	December 31, 2018	December 31, 2017
RECD Revenue Bonds of 2005 Series A, original issue amount of $592,000, secured by water revenues. Interest is charged at the rate of 4.375% per annum. Final maturity is September 1, 2044.	$ 494,000	$ 504,000
RECD Revenue Bonds of 2005 Series B, original issue amount of $319,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is September 1, 2044.	264,500	270,000
RECD Revenue Bonds of 2010, (Build America Bonds – Direct Payment), original issue amount of $1,246,000, secured by water revenues. Interest is charged at the rate of 3% per annum. Final maturity is September 1, 2049.	1,122,000	1,142,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program) Series 2012 (B), original issue (District Share) $3,785,000, secured by water revenues. Interest is charged at the rates of 2.2% - 4.2% per annum. Final maturity is January 1, 2039.	3,130,000	3,245,000
Total Bonds Payable	$ 5,010,500	$ 5,161,000
Bonds Payable:		
Current Portion	$ 157,000	$ 150,500
Noncurrent Portion	4,853,500	5,010,500
Total Bonds Payable	$ 5,010,500	$ 5,161,000
Accrued Compensated Absences:		
Current Portion	$ 39,906	$ 38,024
Noncurrent Portion	-	-
Total Accrued Compensated Absences	$ 39,906	$ 38,024

Bonds Payable – U.S. Department of Agriculture – Rural Development, Series 2010

On November 11, 2010, the Carroll County Water District No. 1 issued $1,246,000 Taxable Waterworks Revenue Bonds, Series 2010 with an interest rate of 3%. The proceeds were used to finance the 2007 water system improvement project. The first interest payment was due March 1, 2011. The first principal payment was due September 1, 2012. The final payment will be due September 1, 2049. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 35% of each interest payment due. The credit will amount to $319,024 over the life of the issue.

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2018 and 2017.

December 31, 2018

	Balance at January 1, 2018	Additions	Retirements	Balance at December 31, 2018	Current Portion
Notes Payable	$ 1,013,016	$ -	$ (113,657)	$ 899,359	$ 116,120
Bonds Payable	5,161,000	-	(150,500)	5,010,500	157,000
Accrued Compensated Absences	38,024	27,808	(25,926)	39,906	39,906
Total Long-term Debt	$ 6,212,040	$ 27,808	$ (290,083)	$ 5,949,765	$ 313,026

December 31, 2017

	Balance at January 1, 2017	Additions	Retirements	Balance at December 31, 2017	Current Portion
Notes Payable	$ 1,121,127	$ -	$ (108,111)	$ 1,013,016	$ 113,601
Bonds Payable	5,305,500	-	(144,500)	5,161,000	150,500
Accrued Compensated Absences	40,836	21,058	(23,870)	38,024	38,024
Total Long-term Debt	$ 6,467,463	$ 21,058	$ (276,481)	$ 6,212,040	$ 302,125

The annual requirements for all long-term debt outstanding at December 31, 2018, are as follows:

Due	Note Payable	Note Payable Interest	Service Fee	Bonds	Bonds Interest	Trustee Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2019	$ 116,120	$ 16,524	$ 1,843	$ 157,000	$ 166,976	$ 450	$ 11,781	$ 470,694
2020	118,643	14,001	1,606	163,000	161,937	450	11,571	471,208
2021	121,222	11,421	1,364	170,500	156,655	450	11,351	472,963
2022	123,859	8,784	1,117	171,500	151,272	450	11,120	468,102
2023	126,555	6,089	864	178,000	145,727	450	10,878	468,563
2024-28	158,532	7,861	2,116	991,000	637,139	2,250	50,559	1,849,457
2029-33	37,779	4,408	1,469	1,192,000	447,918	2,250	43,209	1,729,033
2034-38	39,220	2,967	989	1,134,000	218,571	2,250	34,441	1,432,438
2039-43	40,716	1,471	490	489,500	73,795	450	23,972	630,394
2044-48	16,713	157	53	309,000	21,255	-	11,446	358,624
2049-50	-	-	-	55,000	1,361	-	289	56,650
	$ 899,359	$ 73,683	$ 11,911	$ 5,010,500	$ 2,182,606	$ 9,450	$ 220,617	$ 8,408,126

The annual requirements for all long-term debt outstanding at December 31, 2017, are as follows:

Due	Note Payable	Note Payable Interest	Service Fee	Bonds	Bonds Interest	Trustee Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2018	$ 113,652	$ 18,992	$ 2,075	$ 150,500	$ 171,854	$ 450	$ 11,991	$ 469,514
2019	116,120	16,524	1,843	157,000	166,976	450	11,781	470,694
2020	118,643	14,001	1,606	163,000	161,937	450	11,571	471,208
2021	121,222	11,421	1,364	170,500	156,655	450	11,351	472,963
2022	123,859	8,784	1,117	171,500	151,272	450	11,120	468,102
2023-27	277,699	12,900	2,630	956,500	668,812	2,250	51,870	1,972,661
2028-32	37,498	4,690	1,563	1,147,000	490,438	2,250	44,782	1,728,221
2033-37	38,928	3,260	1,087	1,255,000	264,193	2,250	36,320	1,601,038
2038-42	40,412	1,775	592	532,500	90,648	900	26,218	693,045
2043-47	24,983	328	109	345,500	28,132	-	14,133	413,185
2048-50	-	-	-	112,000	3,544	-	1,465	117,009
	$ 1,013,016	$ 92,675	$ 13,986	$ 5,161,000	$ 2,354,461	$ 9,900	$ 232,602	$ 8,877,640

NOTE 9 – COMPENSATED ABSENCES

Employees receive one half sick day per month for sick time. A maximum of six months sick leave can be accumulated. Unused sick time accumulated is credited to service time at retirement from the District upon termination of employment. No portion of accrued sick leave is payable. Vacation days accumulate as follows:

At the end of 1st year	-	1 week
At the end of 3rd year	-	2 weeks
At the end of 10th year	-	3 weeks
At the end of 15th year	-	4 weeks

Unused vacation may be carried into the next calendar year.

The District accrues a liability for compensated absences which meet the following criteria:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

Sick leave accumulated but not accrued at December 31, 2018 and 2017 was $46,401 and $39,270, respectively. At December 31, 2018 and 2017, a liability for accrued vacation due was recorded in the amount of $39,906 and $38,024, respectively.

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION

Restricted for Debt Service: RECD Revenue Bonds of 2005 Series A and B, 2010 Series; Kentucky Rural Water Refunding Revenue Bonds, Series 2012 B and Kentucky Infrastructure Authority Note Payable	December 31, 2018	December 31, 2017
Cash	$ 1,360,607	$ 1,328,105
Add: Accrued Interest Receivable	2,177	97
Less: Accrued Interest Payable	(69,694)	(70,373)
Total Restricted for Debt Service	$ 1,293,090	$ 1,257,829

Unrestricted net position was reduced by $134,435 and $158,174 for the years ended June 30, 2018 and 2017, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability and Net OPEB Liability. The accounts affected were as follows:

	2018	(As Restated) 2017
Increase (Decrease) in Deferred Outflows of Resources	$ (210)	$ 206,973
(Increase) Decrease in Deferred Inflows of Resources	(32,478)	(106,649)
(Increase) Decrease in Net Pension Liability	(118,043)	(164,862)
(Increase) Decrease in Net OPEB Liability	16,296	(93,636)
Net Decrease in Unrestricted Net Position	$ (134,435)	$ (158,174)

NOTE 11 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2018 and 2017 was $205,900 and $218,309, respectively. No interest was capitalized in 2018 or 2017.

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN)

The Carroll County Water District No. 1 participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees.

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. Under the provisions of Kentucky Revised Statute ("KRS") Section 61.701, the KRS Board administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for an insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the pension funds administered by KRS, which includes CERS.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS's pension and insurance funds. Additionally, the Kentucky Retirement System issues publicly available financial reports that include the Schedules of Employer Allocations and Pension amounts, and the Schedules of Employer Allocations of Post Employment Benefits Other Than Pension amounts, by employer. The most recent financial reports, dated June 30, 2018, may be obtained on-line as follows:

- Kentucky Retirement Systems Audit Report – 2018
  https://apps.auditor.ky.gov/Public/Audit_Reports/Archive/2018KRSfinancialaudit.pdf
- Kentucky Retirement Systems Schedule of Employer Allocations and Pension Amounts – Audit Report 2018 – GASB 68
  https://kyret.ky.gov/Employers/GASB/2018%20Audited%20Reports/2018KRSEmployerAllocationPensionAudit.pdf
- Kentucky CERS GASB 68 Actuarial Report
  https://kyret.ky.gov/Employers/GASB/2018%20GASB%2068%20and%2075%20Actuary%20Reports/GASB68_Actuarial_Information_CERS_FY2018.pdf
- Kentucky Retirement Systems Schedules of Employer Allocations and OPEB Amounts by Employer – Audit Report 2018 – GASB 75
  https://kyret.ky.gov/Employers/GASB/2018%20Audited%20Reports/2018KRS-OPEBAudit.pdf
- Kentucky CERS GASB 75 Actuarial Report
  https://kyret.ky.gov/Employers/GASB/2018%20GASB%2068%20and%2075%20Actuary%20Reports/GASB75_Actuarial_Information_CERS_FY2018.pdf

Basis of Accounting – CERS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

Method Used to Value Investments/Investment Objectives – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year. Investment returns are recorded net of investment fees.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

- Shorter-Term (5 years and less): The returns of the particular asset classes of the managed funds of the Systems, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.
- Medium-Term (5 to 30 years): The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

- Longer-Term: The total assets of the Systems should achieve a return of 6.25% for CERS pension and insurance plans. This is measured over 30 to 40 years which exceeds the actuarially required rate of return while also exceeding the return achieved by its total fund benchmark.

Target Asset Allocation Board Policy as of June 30, 2018 and 2017 was as follows:

	2018	2017
Combined Equity	35.00%	50.80%
Combined Fixed Income	24.00%	14.00%
Private Equity	10.00%	10.00%
Absolute Return	10.00%	10.00%
Real Return	10.00%	8.00%
Real Estate	5.00%	5.00%
Global Bonds	4.00%	0.00%
Cash	2.00%	2.20%
	100.00%	100.00%

Total fund return for the years ended June 30, 2018 and 2017 was 8.57% and 13.47% respectively.

Pension Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous and hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS along with hazardous duty position of each participating county, city, or school board, any additional eligible local agencies electing to participate in CERS. 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. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011. The Carroll County Water District No. 1 participates in the non-hazardous plan.

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

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

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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.

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.

There were no changes in benefit terms during the year ended June 30, 2017.

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 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 bases adopted by the Board. For the fiscal years ended June 30, 2018 and 2017 participating non-hazardous employers contributed 19.18% and 18.68%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2018 and 2017 were 19.18% and 18.88%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

Non-hazardous employer contributions for the year ended June 30, 2018, of $19.18% were allocated 14.48% to CERS's pension fund and 4.70% to CERS's (health insurance). Non-hazardous employer contributions for the year ended June 30, 2017, of 18.68% were allocated 13.95% to CERS's pension fund and 4.73% to CERS' OPEB (health insurance) fund, respectively.

For the fiscal year ended June 30, 2018 and 2017, plan members who began participating prior to September 1, 2008, were required to contribute 5% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. Plan members who began participating on, or after, September 1, 2008 and before January 1, 2014, were required to contribute a total of 6% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%.

If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, for plan members who began participating on, or after, September 1, 2008, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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. Non-hazardous members contribute 5%, of their annual creditable compensation and an additional 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (non-hazardous) and employer pay credit. The employer pay credit represents a portion of the employer contribution.

Interest is paid into the Tier 3 member's account. The account currently earns 4% interest credit on the member's account balance as of June 30th of the previous year. The member's account may be credited with additional interest if the system's five-year Geometric Average Net Investment Return (GANIR) exceeded 4%. If the member was actively employed and participating in the fiscal year, and if the systems' GANIR for the previous five years exceeds 4%, then the member's account

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30th of the previous year (Upside Sharing Interest). It is possible that one system in KRS may get an Upside Sharing Interest, while one may not.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Pension Plan)

Per the Kentucky Retirement System's 2018 Comprehensive Annual Financial Report, the actuarially determined contribution rates effective for fiscal year ending 2018 are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are as follows:

Item	CERS June 30, 2018 Non-Hazardous/Hazardous	CERS June 30, 2017 Non-Hazardous/Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2016	June 30, 2016
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Amortization Period:	27 Years, Closed	28 Years, Closed
Investment Return:	7.50%	7.50%
Inflation:	3.25%	3.25%
Payroll Growth:	4.00%, average	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

Actuarial Methods and Assumptions Used in Calculation of the Actuarially Determined Total Pension Liability and Net Pension Liability

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

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Actuarial Methods and Assumptions Used in Calculation of the Actuarially Determined Total Pension Liability and Net Pension Liability (Continued)

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

Inflation	2.30%
Salary Increases	3.05%
Investment Rate of Return	6.25%

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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension

At December 31, 2018, and 2017 the District reported a liability of $1,094,550 and $976,507, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2018, and 2017 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. 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 employers, actuarially determined. At June 30, 2018, and 2017 the District's proportion was 0.017972 and 0.016683 percent, respectively, which is an increase of 0.001289% and 0.000198% for the years ended June 30, 2018 and June 30, 2017, respectively.

The District's total payroll for the calendar year ended December 31, 2018 was $475,140. Contributions to the CERS were based on $447,333 (eligible gross wages). The total employer pension contributions for the calendar year ended December 31, 2018 were $68,732.

The District's total payroll for the calendar year ended December 31, 2017 was $453,454. Contributions to the CERS were based on $422,380 (eligible gross wages). The total employer pension contributions for the calendar year ended December 31, 2017 were $59,317.

All contributions were made as required.

The District's contribution for the County Employees' Retirement System's year(s) ended December 31, 2018, and 2017 was 0.017972 and 0.016683 percent, respectively, of the System's total contribution requirements for all employers.

For the years ended December 31, 2018, and December 31, 2017, the District recognized pension expense of $185,178 and $180,172, respectively. At December 31, 2018 and 2017 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension* (Continued)**

	December 31, 2018		December 31, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 35,701	$ 16,022	$ 1,211	$ 24,788
Change in Assumptions	106,969	-	180,192	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	48,933	-	8,223	490
Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	50,897	64,022	77,338	65,260
District Contributions Made Subsequent to the NPL Measurement Date	36,972	-	21,404	-
Total	$ 279,472	$ 80,044	$ 288,368	$ 90,538

In the District's 2017 audit report deferred outflows and inflows attributable to the net difference between projected and actual investment earnings on pension plan assets were netted. They are shown at gross above.

$36,972 and $21,404 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2019 and 2018. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

Year Ended December 31, 2018:		Increase (Decrease) to Pension Expense
	2019	$ 109,379
	2020	63,340
	2021	(4,388)
	2022	(5,875)
		$ 162,456

Year Ended December 31, 2017:		Increase (Decrease) to Pension Expense
	2018	$ 77,927
	2019	76,952
	2020	34,086
	2021	(12,539)
		$ 176,426

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2018 and 2017], calculated using the discount rates of 6.25% and 6.25% for the years ended June 30, 2018 and 2017, respectively, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2018	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
Net Pension Liability	$ 7,667,062,949	$ 6,090,304,793	$ 4,769,257,576
District's Proportionate Share	1,377,925	1,094,550	857,131

As of June 30, 2017	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
Net Pension Liability	$ 7,382,285,860	$ 5,853,307,449	$ 4,574,328,530
District's Proportionate Share	1,231,586	976,507	763,135

Payable to the Pension Plan

At December 31, 2018 and 2017, the District reported a payable of $8,114 and $8,764 for the outstanding amount of contributions required tor the years then ended. The amount represents the employee withholding and employer match for the last month of the years then ended.

Insurance (OPEB) Plan Description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. A portion of the insurance premiums are withheld from benefit payments for members including those of the CERS Non-Hazardous system.

Contributions

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Contributions (Continued)

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Portion Paid by Insurance Fund

Years of Service	Paid by Insurance Fund (%)
20+ years	100.00%
15-19 years	75.00%
10-14 years	50.00%
4-9 years	25.00%
Less than 4 years	0.00%

For members participating on or after July 1, 2003, for CERS Non-Hazardous members, the dollar contribution for fiscal years 2018 and 2017 was $13.38 and $13.18, respectively.

For the fiscal years ended June 30, 2018 and 2017, plan members who began on, or after, September 1, 2008 (classified in the Tier 2 or Tier 3 structure of benefits) were required to contribute 1% of their annual creditable compensation to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

If a member terminates employment the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Participating employers are required to contribute at an actuarially determined rate as described previously.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (OPEB)

Per the GASB Statement No. 75, *Report for Postemployment Benefits Other than Pensions* for the Kentucky County Employees Retirement System prepared as of June 30, 2018 and 2017, the actuarially determined contribution rates effective for fiscal year ending 2018 are calculated as of June 30, 2017. The actuarial methods and assumptions used to calculate the actuarially determined contributions are as follows:

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

***Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (OPEB)* (Continued)**

Item	CERS June 30, 2018 Non-Hazardous/Hazardous	CERS June 30, 2017 Non-Hazardous/Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2016	June 30, 2015
Experience Study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
RemainingAmortization Period:	27 Years, Closed	28 Years, Closed
Payroll Growth:	4.00%, average	4.00%, average
Investment Return:	7.50%	7.50%
Inflation:	3.25%	3.25%
Salary Increases:	4.00%, average	4.00%, average
Mortality:	The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.	The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.
Healthcare Trend Rates:		
Pre-65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post-65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.0% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.0% over a period of 2 years.

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and Net OPEB Liability

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. The total OPEB liability at June 30, 2017 was rolled from the June 30, 2016 valuation date using generally accepted accounting 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 for 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.

The actuarial assumptions are:

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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Long-Term Expected Rate of Return

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

The long-term expected real rate of return was 6.09% and 6.25% at June 30, 2018 and 2017.

Discount Rate

The projection of cash flows used to determine the June 30, 2018 discount rate of 5.85% for CERS Non-hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018.

The discount rates used to measure the total OPEB liability as of June 30, 2017 for the CERS Non-Hazardous group were based on the expected rate of return on OPEB plan investments 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.

The fully-insured premiums KRS pays for the CERS Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

***Discount Rate* (Continued)**

the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. The liability associated with this implicit subsidy is included in the calculation of the total OPEB liability.

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 Kentucky Retirement System's CAFR.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan

At December 31, 2018 and 2017 the District reported a liability of $319,089 and $335,385, respectively.

The District's total payroll for the calendar year ended December 31, 2018 was $475,140. Contributions were based on $447,333 (eligible gross wages). The total employer contributions to the Health Insurance Fund for the year ended June 30, 2018 were $22,310.

The District's total payroll for the calendar year ended December 31, 2017 was $453,454. Contributions were based on $422,380 (eligible gross wages). The total employer contributions to the Health Insurance Fund for the year ended June 30, 2017 were $20,112.

All contributions were made as required.

The Districts contribution for the County Employee's Retirement System's (Insurance Plan) for the years ended June 30, 2018 and 2017 was 0.017972 percent and 0.016683 percent, respectively, of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the years ended June 30, 2018 and 2017 was $3,808 and $2,104, respectively.

For the years ended December 31, 2018 and 2017, the District recognized expense of $39,400 and $57,432, respectively. At December 31, 2018 and 2017 the District reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

	December 31, 2018		December 31, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ -	$ 37,186	$ -	$ 932
Change in Assumptions	63,727	737	72,978	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	16,918	631	-	779
Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments	-	21,979	-	15,850
District Contributions Made Subsequent to the Net OPEB Measurement Date	12,000	-	10,981	-
Total	$ 92,645	$ 60,533	$ 83,959	$ 17,561

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan **(Continued)**

$12,000 and $10,981 reported as deferred outflows of resources related to OPEB arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the years ended December 31, 2019 and 2018 respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources and deferred inflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

Year Ended December 31, 2018:		Increase (Decrease) to OPEB Expense
	2019	$ 4,181
	2020	4,181
	2021	4,181
	2022	8,449
	2023	265
	Thereafter	(1,145)
		$ 20,112

Year Ended December 31, 2017:		Increase (Decrease) to OPEB Expense
	2018	$ 9,536
	2019	9,536
	2020	9,536
	2021	9,536
	2022	13,498
	Thereafter	3,775
		$ 55,417

Payable to the OPEB Health Insurance Plan

At December 31, 2018 and 2017, the District reported a payable of $2,634 and $2,972, respectively for the outstanding amount of contributions required for the years then ended. This amount represents the employee withholding and employer match for the last month of the years then ended.

Sensitivity of the District's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2018 and 2017, calculated using the single discount rates of 5.85% and 5.84%, respectively as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

***Sensitivity of the District's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate* (Continued)**

As of June 30, 2018	1% Decrease [4.85%]	Current Discount [5.85%]	1% Increase [6.85%]
Net OPEB Liability	$ 2,306,064,041	$ 1,775,480,122	$ 1,323,519,582
District's Proportionate Share	414,446	319,089	237,863

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2018, calculated using the healthcare cost trend rate for the year ended June 30, 2018 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2018	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	$ 1,321,862,520	$ 1,775,480,122	$ 2,310,164,647
District's Proportionate Share	237,565	319,089	415,183

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2017, calculated using the single discount rates of 5.84% for the year ended June 30, 2017 as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2017	1% Decrease [4.84%]	Current Discount [5.84%]	1% Increase [6.84%]
Net OPEB Liability	$ 2,558,048,813	$ 2,010,342,058	$ 1,554,563,974
District's Proportionate Share	426,759	335,385	259,348

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2017, calculated using the healthcare cost trend rate for the year ended June 30, 2017 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2017	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	$ 1,542,035,808	$ 2,010,342,058	$ 2,619,112,629
District's Proportionate Share	257,258	335,385	436,947

NOTE 13 – ECONOMIC DEPENDENCY

Carroll County Water District No. 1 provides water services to residential, commercial and industrial customers. It should be noted that 14.1% and 18.19% of total water revenue was received from two industries, North American Stainless and Gallatin Steel, for the years ended December 31, 2018 and 2017.

NOTE 14 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through premiums paid to Kentucky Association of Counties All Lines Fund. The District is also subject to the risks associated with employee injury. These risks are covered through premiums paid to the Kentucky Association of Counties, Workers' Compensation Self-insurance Fund. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

NOTE 15 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of $14,900 and $15,774 at December 31, 2018 and 2017, respectively.

NOTE 16 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Carroll County Water District No. 1, has entered into a water resale agreement with Kentucky American Water Company to supply Kentucky American Water Company's customers in the area of Wheatley, Kentucky. Under this agreement, as amended September 15, 2013, Carroll County Water District No. 1 will sell its water to the Kentucky American Water Company at a price of $2.26 per 1,000 gallons. The agreement is for a term of 20 years with automatic one-year extensions unless terminated by either party upon one year's written notice. Rates may be modified by providing 120 days notice or by action of the Public Service Commission.

The District has entered into a 99 year lease with the City of Ghent for the use of one of the City's buildings. The District paid the City $15,000 for the lease. The prepayment is being amortized over the life of the lease.

During the 2018 Kentucky Legislature Session, House Bill 362 passed which caps CERS Employer Contribution rate increases up to 12% per year over the prior fiscal year for the period July 1, 2018 to June 30, 2028. The CERS Employer rate beginning July 1, 2018 and 2019 have been set at 21.48% and 24.06% respectively.

NOTE 17 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Under these statements, the District is required to report in its financial statement(s), the net other postemployment benefit liability associated with its' employees' benefits as a liability. It is also required to report a deferred outflow of resources for its benefit, contributions made subsequent to the measurement date of the beginning net OPEB liability. These balances reflect the government's obligation to pay deferred benefits earned by its employees when the benefit [plan's] liability exceeds the value of the benefit plan's assets.

Retroactive application by restating financial statements for all periods presented is required. The effect of the reinstatement is as follows for the year ended December 31, 2017:

NOTE 17 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

Statement of Net Position:

Total Net Position as Originally Presented December 31, 2017	$	5,814,964
Less: Net OPEB Liability		(335,385)
Plus: Deferred Outflows - Change in Assumptions		72,978
Less: Deferred Inflows -		
* Difference Between Expected & Actual Experience		(932)
* Change in Proportion & Difference Between Employer Contributions & Proportionate Share of Contributions		(779)
* Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments		(15,850)
Total Net Position as restated at December 31, 2017	$	5,534,996

The components of Net Position at December 31, 2017:
after restatement are as follows:

Net Investment in Capital Assets	$	3,493,636
Restricted for Debt Service		1,257,829
Unrestricted		783,531
Total Net Position as Restated December 31, 2017	$	5,534,996

Statement of Revenues, Expenses and Changes in Fund Net Position:

Change in Net Position as Originally Presented in the [Comparative] Statement for the Year Ended December 31, 2017	$	(20,955)
GASB 75 Adjustments for OPEB Liability		(38,219)
Change in Net Position as Restated	$	(59,174)

CARROLL COUNTY WATER DISTRICT NO. 1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31

	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset) %	0.017972%	0.016683%	0.016485%	0.01638%	0.01649%
District's proportionate share of the net pension liability (asset)	$ 1,094,550	$ 976,507	$ 811,645	$ 704,435	$535,000
District's covered payroll (calendar year)	$ 447,333	$ 422,380	$ 400,856	$ 394,012	$382,520
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	244.68%	231.19%	202.48%	178.79%	139.86%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.3%	55.5%	59.97%	66.80%

Calculations of the District's proportion of the net pension liability (%) and proportionate share of the net pension liability ($) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and Pension Amounts by Employer for the fiscal years ended June 30, shown.

District payroll is reported for its' covered calendar years ending December 31, 2014 through 2018.

GASB 68 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

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.

There have been no changes in the actuarial assumptions since June 30, 2017. Actuarial Methods and Assumptions for Determining Net Pension Liability:

	2018	2017	2016	2015	2014
Inflation	2.30%	2.30%	3.25%	3.25%	3.50%
Salary Increases	3.05%	3.05%	4.00%	4.00%	4.50%
Investment Rate of Return	6.25%	6.25%	7.50%	7.50%	7.75%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were based on an actuarial valuation performed as of June 30, 2017.

CARROLL COUNTY WATER DISTRICT NO. 1

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM (PENSION)

For Years Ended December 31

	2018	2017	2016	2015
Contractually required contributions	$ 68,732	$ 59,317	$ 54,235	$ 51,276
Contributions in relation to the contractually required contributions	68,732	59,317	54,235	51,276
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll (calendar year)	$ 447,333	$ 422,380	$ 400,856	$ 394,012
Contributions as a percentage of covered payroll	14.48%	13.95%	12.42%	12.49%

The District's contributions above include only contributions to the County Employees Retirement System Pension Fund. Gasb 68 requires the District to present the above information for the CERS pension for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

CARROLL COUNTY WATER DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31

	2018	2017
District's proportion of the net OPEB liability (asset) %	0.017972%	0.016683%
District's proportionate share of the net OPEB liability (asset)	$ 319,089	$ 335,385
District's covered payroll (Calendar Year)	$ 447,333	$ 422,380
District's proportionate share of the net OPEB liability (asset) as a percentage of its of its covered payroll	71.33%	79.40%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	52.4%

Calculations of the District's proportion of the net OPEB liability (%) and proportionate share of the net OPEB liability ($) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and OPEB Amounts by Employer for the fiscal years ended June 30, shown.

District covered payroll is reported for its calendar year.

GASB 75 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

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.

There were no changes in actuarial assumptions since June 30, 2017.

Actuarial Methods and Assumptions for Determining Net OPEB Liability:

	2018	2017
Payroll Growth Rate	2.0%	2.0%
Salary Increases	3.05% Average	3.05% Average
Investment Rate of Return	6.25%	6.25%
Investment Rate of Return	7.50%	7.75%
Inflation	2.3%	2.3%
Healthcare Trend Rates: Pre-65	Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare Trend Rates: Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Healthcare Trend Rates: Mortality:	The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.	The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

CARROLL COUNTY WATER DISTRICT

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM

Years Ended December 31

	2018	2017	2016	2015
Contractually (Employer) required contributions	$ 22,310	$ 20,112	$ 17,604	$ 17,092
Contributions in relation to the contractually required contributions	22,310	20,112	17,604	17,092
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 447,333	$ 422,380	$ 400,856	$ 394,012
Contributions as a percentage of covered payroll	4.70%	4.73%	4.64%	4.82%

The District's contributions above include only the contributions to the County Employees Retirement System Insurance Fund.

GASB 75 requires the District to present the above information for the CERS OPEB Plan for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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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 Commissioners of the
Carroll County Water District No. 1
Ghent, KY 41045

We have audited 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, the financial statements of Carroll County Water District No. 1 as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Carroll County Water District No. 1's basic financial statements and have issued our report thereon dated June 27, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Carroll County Water District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Carroll County Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Carroll County Water District No. 1'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Items 2018-001 and 2018-002 that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Carroll County Water District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

CARROLL COUNTY WATER DISTRICT NO. 1'S RESPONSE TO FINDINGS

Carroll County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Carroll County Water District No. 1'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.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

June 27, 2019

CARROLL COUNTY WATER DISTRICT NO. 1
SCHEDULEOF FINDINGSAND RESPONSES
For the Year Ended December 31, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Carroll County Water District No. 1 were prepared in accordance with GAAP.

2. Two deficiencies in internal control related to the audit of the financial statements are reported in the 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. Items 2018-001 and 2018-002 were reported as material weaknesses.

3. No instances of noncompliance material to the financial statements of Carroll County Water District No. 1 were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

2018-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CONDITION:

District personnel have implemented sound oversight procedures over cash reconciliations and the monthly billing and expense disbursement processes. However, instances were observed where postings to the District's general ledger were not made to the appropriate account (expense vs. capital or liability accounts). This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2017 as Item 2017-001.

CAUSE:

Cost of system improvements were not capitalized in all cases. Some accruals were not adjusted appropriately for payments made/received.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

Management should consider financial statement implications when posting to the general ledger to ensure accurate balances.

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

We concur with the recommendation. Management will enhance the monthly review and checking procedures associated with its financial information.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

2018-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2017 as 2017-002.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor to assist with the preparation of the draft financial statements, including the related notes.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

NONE