

EAST CASEY COUNTY WATER DISTRICT
Liberty, Kentucky

FINANCIAL STATEMENTS
December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
East Casey County Water District
Liberty, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the East Casey County Water District (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 respective financial position of the East Casey County Water District, as of December 31, 2018, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Implementation of New GASB Accounting Standards

As discussed in Notes 6 and 8 to the financial statements, effective January 1, 2018, the District adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are 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 pension and OPEB schedules on pages 18-21 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.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District'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 the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
May 28, 2019

EAST CASEY COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 415,498
Investments - certificates of deposit	1,035,370
Customer accounts receivable, net	144,515
Accrued interest receivable	<u>6,003</u>
Total current assets	<u>1,601,386</u>
Restricted assets	
Investments - certificates of deposit	<u>38,630</u>
Capital assets	
Land	87,044
Property, plant and equipment, net	<u>12,237,118</u>
Total capital assets	<u>12,324,162</u>
Total assets	<u>13,964,178</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - pension	108,566
Deferred outflows - OPEB	<u>44,760</u>
Total deferred outflows of resources	<u>153,326</u>
Total assets and deferred outflows of resources	<u>\$ 14,117,504</u>

LIABILITIES

Current liabilities	
Accounts payable	\$ 82,768
Taxes payable	11,187
Customer deposits payable	28,825
Accrued interest payable	7,554
Current portion of long-term debt	<u>162,008</u>
Total current liabilities	<u>292,342</u>
Noncurrent liabilities	
Net pension liability	603,671
Net OPEB liability	175,968
KIA revolving loan payable	819,553
Bonds payable	<u>2,435,044</u>
Total noncurrent liabilities	<u>4,034,236</u>
Total liabilities	<u>4,326,578</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pension	23,504
Deferred inflows - OPEB	<u>37,024</u>
Total deferred inflows of resources	<u>60,528</u>

NET POSITION

Net investment in capital assets	8,907,557
Restricted for reserves	38,630
Unrestricted	<u>784,211</u>
Total net position	<u>9,730,398</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 14,117,504</u>

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

EAST CASEY COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the year ended December 31, 2018

OPERATING INCOME	
Water sales	\$ 1,649,971
Late charges	46,036
Other revenue	<u>14,914</u>
Total operating income	<u>1,710,921</u>
OPERATING EXPENSES	
Water purchases	908,207
Salaries	253,314
Employee benefits	211,201
Taxes	20,304
Office expense and postage	38,312
Insurance	31,610
Transportation expense	29,218
Line upkeep	49,090
Contract labor	23,206
Utilities and telephone	97,196
Legal and professional	30,647
Miscellaneous	21,431
Regulatory commission expenses	<u>3,394</u>
Total operating expense	<u>1,717,130</u>
Operating income (loss) before depreciation	(6,209)
Depreciation expense	<u>(318,188)</u>
OPERATING INCOME (LOSS)	(324,397)
Non-operating income (expenses)	
Interest income	22,276
Interest expense	(93,025)
Bond issue costs	<u>(9,303)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(404,449)
Capital Contributions	
Tap fees	30,973
Other	<u>1,060</u>
Change in net position	(372,416)
Net position, beginning of year, as restated	<u>10,102,814</u>
NET POSITION, END OF YEAR	\$ <u><u>9,730,398</u></u>

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

EAST CASEY COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 1,706,561
Payment to suppliers	(1,244,428)
Payment for employee services and benefits	<u>(421,537)</u>

Net cash provided by operating activities 40,596

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments	(162,814)
Interest payments	(93,305)
Bond issue costs	(9,303)
Additions to property, plant and equipment	(57,257)
Tap fees	30,973
Other capital contributions	<u>1,060</u>

Net cash provided (used) by financing activities (290,646)

CASH FLOWS FROM INVESTING ACTIVITIES

Redemption of certificates of deposit	80,934
Interest income	<u>21,166</u>

Net cash provided (used) by investing activities 102,100

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (147,950)

Cash and cash equivalents, beginning of year 563,448

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 415,498

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ (324,397)
Noncash items included in operating income:	
Depreciation	318,188
Net pension liability	59,583
Net OPEB liability	6,601
Changes in assets and liabilities:	
(Increase) decrease in receivables	(4,360)
Increase (decrease) in accounts payable	(15,341)
Increase (decrease) in customer deposits	2,075
Increase (decrease) in taxes/other payables	<u>(1,753)</u>

Net cash provided by operating activities \$ 40,596

Supplemental disclosure of cash flow information:

Non-cash capital and related financing information:	
Amortization on bond premium	\$ 1,273

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

EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

1. ORGANIZATION AND ACCOUNTING POLICIES

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

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net position consists of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 4.

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates.

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand, cash in bank and certificates of deposit with original maturities of 90 days or less.

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

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, capital contributions and gains and losses on sales of capital assets.

Capital assets are recorded at cost. Donated assets are valued at their fair market value on the date of donation. Interest incurred during the period of construction is capitalized as a part of the construction costs. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

The allowance for uncollectible accounts at December 31, 2018 was \$730,162. The District charges all uncollected accounts directly against current earnings. Charges against earnings for the year ended December 31, 2018 was \$92,453.

Investments consist of certificates of deposit with original maturities of 90 days or longer. Investments are recorded at cost, which approximates fair value.

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

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

The District has evaluated and considered the need to recognize or disclose subsequent events through May 28, 2019, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2018, have not been evaluated by the District.

EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480. The District does not have a formal investment policy but follows Kentucky Revised Statutes for investing funds.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The East Casey County Water District deposits at December 31, 2018 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$1,491,313 at December 31, 2018, \$500,000 was covered by FDIC and the remaining \$991,313 was covered by collateral held at the custodial bank in the District's name.

3. PROPERTY, PLANT, AND EQUIPMENT

A summary of capital asset activity during the fiscal year follows:

	Balance 12/31/2017	Additions	Deductions	Balance 12/31/2018
Capital assets not depreciated:				
Land	\$ 87,044	\$ -	\$ -	\$ 87,044
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>87,044</u>	<u>-</u>	<u>-</u>	<u>87,044</u>
Capital assets that are depreciated:				
Property, plant and equipment	<u>18,963,816</u>	<u>57,257</u>	<u>-</u>	<u>19,021,073</u>
Less accumulated depreciation	<u>6,465,767</u>	<u>318,188</u>	<u>-</u>	<u>6,783,955</u>
Totals	<u>12,498,049</u>	<u>(260,931)</u>	<u>-</u>	<u>12,237,118</u>
Capital assets, net	<u>\$ 12,585,093</u>	<u>\$ (260,931)</u>	<u>\$ -</u>	<u>\$ 12,324,162</u>

4. LONG-TERM DEBT

In December 2014, the Kentucky Bond Corporation issued Series 2014E Revenue Bonds for the District to refund all prior outstanding bonds. This issue contained a premium in the amount of \$30,552, which has been reported with bonds payable and is being amortized over the term of the debt. The new issue will reduce debt service payments by \$753,224 and has a net economic gain of \$149,472. This issue requires annual premium payments which began in February 2016. The Bonds bear interest at an average rate of 3.63%.

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

4. LONG-TERM DEBT (CONTINUED)

The District has obtained a Federally Assisted Drinking Water Revolving Loan from the Kentucky Infrastructure Authority to fund the Various Waterline Extensions Project. The District is taking draws on the loan as the project progresses. The project was completed during 2016, and no draws have been made since. At project completion in 2016, final loan and forgiveness amounts totaled \$1,004,250. Loan repayments began during 2016. The loan has a stated interest rate of 1% to be repaid over 20 years.

The annual requirements to amortize all long-term debt outstanding as of December 31, 2018, are as follows:

Year Ending	Principal	Interest	Fees	Payment
2019	\$ 162,008	\$ 91,809	\$ 8,899	\$ 262,716
2020	171,646	87,983	8,493	268,122
2021	172,956	83,782	8,064	264,802
2022	178,020	79,552	7,631	265,203
2023	183,505	75,179	7,186	265,870
2024-2028	946,649	306,081	28,923	1,281,653
2029-2033	892,449	182,582	17,218	1,092,249
2034-2038	675,155	64,885	6,850	746,890
2039	<u>8,756</u>	<u>328</u>	<u>59</u>	<u>9,143</u>
	<u>3,391,144</u>	<u>\$ 972,181</u>	<u>\$ 93,323</u>	<u>\$ 4,456,648</u>
Net pension liability	603,671			
Net OPEB liability	175,968			
Premium on Refunding	<u>25,461</u>			
	<u>\$ 4,196,244</u>			

The following is a summary of long-term liabilities for the year ended December 31, 2018:

	Interest Rate	Balance January 1, 2018	Issued	Payments	Balance December 31, 2018
KY Bond Corporation	3.63%	\$ 2,639,584	\$ -	\$ 115,000	\$ 2,524,584
Premium on Refunding	-	26,733	-	1,272	25,461
Net pension liability	-	592,296	11,375	-	603,671
Net OPEB liability	-	203,427	-	27,459	175,968
KIA Revolving Loan	1.00%	<u>913,102</u>	<u>-</u>	<u>46,542</u>	<u>866,560</u>
		<u>\$ 4,375,142</u>	<u>\$ 11,375</u>	<u>\$ 190,273</u>	<u>\$ 4,196,244</u>

Bond and Interest Reserve - Per the ordinances authorizing the Kentucky Bond Corporation First Series 2014E Revenue Bonds, the District is required to establish and contribute towards a sinking fund. The District met this requirement at December 31, 2018. Transfers to the sinking fund are reported as interest expense and principal reduction. Future debt obligations shown on the schedule reflect future transfers from the sinking fund to the bond holder.

Depreciation Reserve - Per the assistance agreement with KIA, the District is required to maintain a depreciation reserve in the amount of \$38,630. The District met this requirement at December 31, 2018.

EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

5. RETIREMENT PLAN

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

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

Contributions – For the year ended December 31, 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2018, participating employers contributed 19.18% through June 30th and 21.48% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 6. Plan members contributed 14.48% to the pension trust through June 30th and 16.22%, thereafter for non-hazardous job classifications for the year ended December 31, 2018. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended December 31, 2018, the District contributed \$38,922 or 100% of the required contribution for non-hazardous job classifications.

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

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

5. RETIREMENT PLAN (CONTINUED)

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 and 4 years service
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
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 to 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 to 87+
	Reduced retirement	Not available

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

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2018, the District reported a liability of \$603,671 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and was rolled forward using generally accepted actuarial procedures. The District proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the District's proportion was .00991 percent, which was a decrease of .00021 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the District recognized pension expense of \$98,503. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 19,690	\$ 8,836
Changes of assumptions	58,995	-
Net difference between projected and actual earnings on Plan investments		7,239
Changes in proportion and differences between District contributions and proportionate share of contributions	8,979	7,429
District contributions subsequent to the measurement date	20,902	-
Total	\$ 108,566	\$ 23,504

EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

5. RETIREMENT PLAN (CONTINUED)

The \$20,902 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2019	\$ 51,383
2020	\$ 24,348
2021	\$ (8,329)
2022	\$ (3,242)

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

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.

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

5. RETIREMENT PLAN (CONTINUED)

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

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

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

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

	Discount rate	District's proportionate share of net pension liability	
1% decrease	5.25%	\$	759,959
Current discount rate	6.25%	\$	603,671
1% increase	7.25%	\$	472,729

Payable to the Pension Plan – The District reported a payable of \$5,885 as of December 31, 2018 for the outstanding amount of contributions to the pension plan required for the year then ended. The payable includes both the pension and insurance contribution allocation.

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

5. RETIREMENT PLAN (CONTINUED)

Pension legislation – During the 2018 Regular Session of the General Assembly, Senate Bill 151 was passed changing retirement eligibility and benefits with various effective dates for active, inactive, and future members of KRS. A lawsuit was filed regarding Senate Bill 151 asking the court to declare the new law unconstitutional and unenforceable, and on June 20, 2018, Franklin Circuit Judge Shepherd ruled that Senate Bill 151 is unenforceable because the legislative process violated certain provisions of the Kentucky Constitution. This ruling has been appealed to the Kentucky Supreme Court. An explanation and timeline of changes included in Senate Bill 151 can be found in the Kentucky Retirement Systems Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. Senate Bill 151 cannot be implemented at this time due to court proceedings.

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 5, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 5, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2018, the employer's contribution was 4.70% through June 30th and 5.26% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2018, the District contributed \$12,627, or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

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

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

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

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Tier 3	Participation date	After December 31, 2013
	Insurance eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2018, the District reported a liability for its proportionate share of the net OPEB liability of \$175,968. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2018 was .00991 percent, which was a decrease of .00021 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, the District recognized OPEB expense of \$21,679. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 20,507
Changes of assumptions	35,143	407
Net difference between projected and actual earnings on Plan investments	-	12,121
Changes in proportion and differences between District contributions and proportionate share of contributions	-	3,989
District contributions subsequent to the measurement date	<u>9,617</u>	<u>-</u>
Total	<u>\$ 44,760</u>	<u>\$ 37,024</u>

The \$9,617 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. This includes an adjustment of \$2,839 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,

2019	\$ (144)
2020	\$ (144)
2021	\$ (144)
2022	\$ 2,210
2023	\$ (2,297)
2024	\$ (1,362)

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

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

Non-hazardous

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

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

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

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

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

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Discount Rate – The discount rate used to measure the total OPEB liability was 5.85% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net OPEB liability calculated using the discount rate as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount rate		Proportionate share of net OPEB liability
1% decrease	4.85%	\$	228,554
Current discount rate	5.85%	\$	175,968
1% increase	6.85%	\$	131,174

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

		Proportionate share of net OPEB liability
1% decrease	\$	131,010
Current trend rate	\$	175,968
1% increase	\$	228,960

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

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker’s compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

8. RESTATEMENT OF NET POSITION

Implementation of new accounting standards GASB Statement No. 75

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

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

Net position, beginning of year	\$ 10,264,447
Beginning net OPEB liability	<u>(161,633)</u>
Net position, beginning of year, as restated	<u>\$ 10,102,814</u>

REQUIRED SUPPLEMENTARY INFORMATION

**EAST CASEY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Five Fiscal Years**

	2014	2015	2016	2017	2018
District's proportion of the net pension liability	0.00977%	0.00971%	0.00963%	0.01012%	0.00991%
District's proportionate share of the net pension liability (asset)	\$ 317,000	\$ 417,568	\$ 474,260	\$ 592,296	\$ 603,671
District's covered employee payroll	\$ 224,206	\$ 229,730	\$ 240,266	\$ 257,062	\$ 245,659
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	141.39%	181.76%	197.39%	230.41%	245.74%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

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

The measurement date of the net pension liability is 6 months preceding the fiscal year of the District.

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

**EAST CASEY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - PENSION
Last Six Fiscal Years**

	2013	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 27,976	\$ 29,813	\$ 29,587	\$ 34,089	\$ 34,090	\$ 38,922
Contributions relative to contractually required employer contribution	<u>27,976</u>	<u>29,813</u>	<u>29,587</u>	<u>34,089</u>	<u>34,090</u>	<u>38,922</u>
Contribution deficiency (excess)	<u>\$ -</u>					
District's covered employee payroll	\$ 225,527	\$ 224,349	\$ 236,962	\$ 257,403	\$ 239,758	\$ 253,314
Employer contributions as a percentage of covered-employee payroll	12.40%	13.29%	12.49%	13.24%	14.22%	15.37%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

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

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

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

**EAST CASEY COUNTY WATER DISTRICT
 REQUIRED SUPPLEMENTARY SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 Last Three Fiscal Years**

	2016	2017	2018
District's proportion of the net OPEB liability	0.01012%	0.01012%	0.00991%
District's proportionate share of the net OPEB liability (asset)	\$ 159,562	\$ 203,427	\$ 175,968
District's covered employee payroll	\$ 240,266	\$ 257,062	\$ 245,659
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	66.41%	79.14%	71.63%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

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

The measurement date of the net OPEB liability is 6 months preceding the fiscal year of the District.

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

**EAST CASEY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - OPEB
Last Six Fiscal Years**

	2013	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 15,362	\$ 11,174	\$ 11,147	\$ 12,068	\$ 11,304	\$ 12,627
Contributions relative to contractually required employer contribution	<u>15,362</u>	<u>11,174</u>	<u>11,147</u>	<u>12,068</u>	<u>11,304</u>	<u>12,627</u>
Contribution deficiency (excess)	<u>\$ -</u>					
District's covered employee payroll	\$ 225,527	\$ 224,349	\$ 236,962	\$ 257,403	\$ 239,758	\$ 253,314
Employer contributions as a percentage of covered-employee payroll	6.81%	4.98%	4.70%	4.69%	4.71%	4.98%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

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

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

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



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

To the Board of Commissioners
East Casey County Water District
Liberty, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Casey County Water District (the District), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 28, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (2018-001).

Compliance and Other Matters

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

East Casey County Water District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



RFH, PLLC
Lexington, Kentucky
May 28, 2019

**EAST CASEY COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2018**

FINDING:

2018-001 – Internal Control Over Financial Reporting (Recurring)

Criteria:

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Cause:

The District lacks personnel with the expertise to draft the financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

Effect:

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation:

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

Response:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the financial statements.