

**EAST CLARK COUNTY WATER DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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# SUMMERS, MCCRARY & SPARKS, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of  
East Clark County Water District  
Winchester, KY

We have audited the accompanying financial statements of the business-type activities of the East Clark County Water District, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the East Clark County Water District as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, budgetary comparison information on page 33 and the Schedule of the Proportionate Share of the Net Pension Liability, Schedule of Contributions, and Notes to the Required Supplementary Information on pages 34 through 36 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Statements of Functional Expenses for the years ended December 31, 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statements of Functional Expenses for the years ended December 31, 2017 and 2016 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, The Statements of Functional Expenses for the years ended December 31, 2017 and 2016 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2018, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Winchester, Kentucky

May 24, 2018

**EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
DECEMBER 31, 2017 AND 2016**

East Clark County Water District (the District) is presenting the following discussion and analysis to provide an overall review of the District's financial activities for the fiscal years ending December 31, 2017, 2016, and 2015. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

**2017 FINANCIAL HIGHLIGHTS**

- The District's operating revenues and operating expenses remained consistent with the prior year.
- The District's total assets decreased \$176,653 and total liabilities decreased \$189,870 from 2016 to 2017, resulting in a decrease in total net position of \$31,507 or 0.4% from the prior year.
- Interest income for 2017 was \$9,024, which is comparable to interest income in 2016.

**GENERAL INFORMATION ABOUT EAST CLARK COUNTY WATER DISTRICT**

The District recognized the need for a central water supply for the residents of the eastern section of Clark County, Kentucky early in its history. The District was organized in 1967 pursuant to Chapter 74 of the Kentucky Revised Statutes.

Management is vested in a five-member commission consisting of a chairman and four commissioners appointed by Clark County Fiscal Court.

The District relies on Winchester Municipal Utilities and Kentucky American Water Company for its water supply. Water is pumped to approximately 2400 customers through more than 197 miles of water mains. The Kentucky Public Service Commission (PSC) regulates the District in matters of rates, rules, and levels of service.

**DISTRICT FINANCIAL ANALYSIS**

The Statements of Net Position includes all the District's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District. A summary of the District's Statements of Net Position is presented below.

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2017 AND 2016

Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 2,083,326	2,005,164	\$ 2,137,655
Capital Assets, net of depreciation	<u>8,189,369</u>	<u>8,444,184</u>	<u>8,510,925</u>
Total Assets	10,272,695	10,449,348	10,648,580
Deferred Outflows of resources	<u>205,871</u>	<u>164,926</u>	<u>69,775</u>
Debt outstanding	1,335,883	1,588,832	1,855,790
Other liabilities	<u>788,319</u>	<u>725,240</u>	<u>502,144</u>
Total liabilities	<u>2,124,202</u>	<u>2,314,072</u>	<u>2,357,934</u>
Deferred Inflows of resources	<u>85,669</u>	<u>-</u>	<u>30,241</u>
Investment in capital assets, net of depreciation	6,853,486	6,855,352	6,655,135
Restricted net assets	136,201	136,201	136,201
Unrestricted net assets	<u>1,279,008</u>	<u>1,308,649</u>	<u>1,538,844</u>
Total net position	\$ <u>8,268,695</u>	<u>8,300,202</u>	\$ <u>8,330,180</u>

Net position decreased \$31,507 from 2016 to 2017, a decrease of 0.4%. Debt outstanding has decreased \$252,949 or 15.9% from 2016.

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2017 AND 2016

Condensed Statements of Revenue, Expenditures, and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 1,428,801	\$ 1,426,812	\$ 1,437,629
Non-operating revenues	<u>111,828</u>	<u>15,855</u>	<u>10,103</u>
Total revenues	<u>1,540,629</u>	<u>1,442,667</u>	<u>1,447,732</u>
Operating Expenses	1,099,742	1,113,153	975,912
Depreciation	331,020	326,762	314,732
Non-operating expense	<u>156,793</u>	<u>68,890</u>	<u>70,804</u>
Total expenses	<u>1,587,555</u>	<u>1,508,805</u>	<u>1,361,448</u>
Net income	(46,926)	(66,138)	86,284
Customer connection fees	<u>15,419</u>	<u>36,160</u>	<u>26,821</u>
Change in net position	(31,507)	(29,978)	113,105
Beginning net position	8,300,202	8,330,180	8,535,622
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(318,547)</u>
Adjusted beginning net position	<u>8,300,202</u>	<u>8,330,180</u>	<u>8,217,075</u>
Ending net position	\$ <u>8,268,695</u>	\$ <u>8,300,202</u>	\$ <u>8,330,180</u>

The District's total revenue, excluding grants, increased by \$97,962 or 6.79%. The increase is due in part non-operating revenue from a water line re-location contract. Total expenses increased \$78,750 or 5.22%. The increase is due to the increase cost of employee benefits and non-operating expenses incurred in a waterline re-location contract. The increase in depreciation in 2017 of \$4,258 or 1.30% is attributed purchase of equipment. In 2017, non-operating revenue consists of income earned from a waterline re-location contract of \$99,594; Interest income of \$9,024 and gain on the sale of scrap materials. In 2017, non-operating expenses consist of interest on long-term debt of \$60,948 and expenses related to the waterline relocation project of \$95,845. In 2016 non-operating income consists of interest income of \$7,870 and \$7,985 from the sale of scrap. In 2016, non-operating expense consists of interest expense on long-term debt of \$68,890



EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2017 AND 2016

**CAPITAL EXPENDITURES**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital assets	\$ 13,501,349	13,449,189	\$ 13,216,352
Accumulated depreciation	<u>(5,311,980)</u>	<u>(5,005,005)</u>	<u>(4,705,427)</u>
	<u>\$ 8,189,369</u>	<u>8,444,184</u>	<u>8,510,925</u>

In 2016 the District purchased land and buildings on Jefferson Street in Winchester and sold the land and building on Flannigan Street. Funds for the purchase came from the District's reserves. There were no construction projects in 2017. Equipment acquisitions were financed from the District's reserve funds in 2017 and 2016. Contributions to capital amounted to \$15,419 in 2017, and \$36,160 in 2016 for new tap-on fees to existing lines.

**BONDS AND CAPITAL LEASE OBLIGATIONS**

Condensed Schedule of Debt

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Bonds	1,058,883	1,142,832	1,215,790
Capital lease obligations	<u>277,000</u>	<u>446,000</u>	<u>640,000</u>
Total	<u>\$ 1,335,883</u>	<u>1,588,832</u>	<u>\$ 1,855,790</u>

The District made all its scheduled debt payments during 2017, and 2016.

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2017 AND 2016

**ECONOMIC FACTORS AND FUTURE BUDGET ISSUES**

The District continues to sustain slow growth. New tap-on fees decreased \$20,741 or 56.42% from 2016 to 2017. Growth in 2018, is anticipated to remain at slow levels.

During 2017, the District's water rates did not increase. The District buys water for distribution to its customers. In the future, as cost of purchased water rises, rate increases from WMU and Kentucky American Water Company, who supply water to the District, will be passed on to District customers.

**DISTRICT CONTACT INFORMATION**

This financial report is designed to provide our customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact East Clark County Water District, 118 Hopkins Street, Winchester, KY 40392 or by phone at (859) 745-1458 or by email at [wdballard@bellsouth.net](mailto:wdballard@bellsouth.net).

EAST CLARK COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 744,920	\$ 683,000
Investments	1,046,935	1,040,892
Receivables:		
Customer accounts	97,890	110,128
Unbilled	38,663	39,676
Accrued interest	4,554	3,367
Other receivables	25,951	-
Inventory, at cost	28,730	30,223
Prepaid expenses	16,862	15,715
	<hr/>	<hr/>
Total current assets	2,004,505	1,923,001
	<hr/>	<hr/>
Restricted assets:		
Cash and cash equivalents	78,821	82,163
	<hr/>	<hr/>
Total restricted assets	78,821	82,163
	<hr/>	<hr/>
Capital assets:		
Property, plant and equipment, net of depreciation	8,099,325	8,354,140
Land	90,044	90,044
	<hr/>	<hr/>
	8,189,369	8,444,184
	<hr/>	<hr/>
Total assets	10,272,695	10,449,348
	<hr/>	<hr/>
Deferred outflows of resources	205,871	164,926
	<hr/>	<hr/>
Total assets and deferred outflows of resources	<u>\$ 10,478,566</u>	<u>\$ 10,614,274</u>

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2017 and 2016

**LIABILITIES AND NET POSITION**

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable, trade	\$ 42,917	\$ 31,281
Accrued compensated absences	18,828	17,212
Accrued interest payable	21,529	20,693
Accrued liabilities	22,201	15,816
Lease obligations - current portion	177,000	169,000
Refundable customer deposits	94,704	92,935
Revenue bonds - current portion	<u>65,000</u>	<u>83,000</u>
Total current liabilities	<u>442,179</u>	<u>429,937</u>
Long-term liabilities:		
Revenue bonds net of current portion	993,883	1,059,832
Obligations under long-term lease net of current portion	100,000	277,000
Net pension liability	<u>588,140</u>	<u>547,303</u>
Total long-term liabilities	<u>1,682,023</u>	<u>1,884,135</u>
Total liabilities	<u>2,124,202</u>	<u>2,314,072</u>
Deferred inflows of resources	<u>85,669</u>	<u>-</u>
Net Position		
Net Investment in capital assets	6,853,486	6,855,352
Restricted:		
Restricted for debt retirement	117,001	117,001
Restricted for plant renewal and replacement	19,200	19,200
Unrestricted	<u>1,279,008</u>	<u>1,308,649</u>
Total net position	<u>8,268,695</u>	<u>8,300,202</u>
Total liabilities, net position and deferred inflows of resources	<u><u>\$ 10,478,566</u></u>	<u><u>\$ 10,614,274</u></u>

EAST CLARK COUNTY WATER DISTRICT  
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Water sales	\$ 1,377,078	\$ 1,390,053
Other operating income	<u>51,723</u>	<u>36,759</u>
Total operating revenues	<u>1,428,801</u>	<u>1,426,812</u>
Operating expenses		
Transmission, distribution and services	419,387	411,759
Purchased water	328,197	325,345
General and administrative	352,158	376,049
Depreciation	<u>331,020</u>	<u>326,762</u>
Total operating expenses	<u>1,430,762</u>	<u>1,439,915</u>
Operating income	<u>(1,961)</u>	<u>(13,103)</u>
Non-operating revenues (expenses):		
Non-operating revenues	99,594	-
Interest income	9,024	7,870
Customer connection fees	15,419	36,160
Gain on disposal of assets	3,210	7,985
Non-operating expenses	(95,845)	-
Interest expense	<u>(60,948)</u>	<u>(68,890)</u>
Total non-operating revenues (expenses)	<u>(29,546)</u>	<u>(16,875)</u>
Change in net position	(31,507)	(29,978)
Net position at the beginning of the year	<u>8,300,202</u>	<u>8,330,180</u>
Net position at the end of the year	<u><u>\$ 8,268,695</u></u>	<u><u>\$ 8,300,202</u></u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,442,052	\$ 1,442,076
Cash payments to suppliers for goods and services	(613,152)	(552,400)
Cash payments to employees and professional contractors for services	<u>(406,415)</u>	<u>(474,316)</u>
Net cash provided by operating activities	<u>422,485</u>	<u>415,360</u>
Cash flows from capital and related financing activities:		
Principal payments on bonds and lease obligations	(252,949)	(266,958)
Interest payments on bonds and lease obligations	(60,112)	(71,671)
Non-operating income	99,594	-
Non-operating expense	(95,845)	-
Purchase of fixed assets	-	(225,000)
Equipment purchased	(76,205)	(83,993)
Sales of real estate	-	56,940
Sale of surplus equipment	3,210	-
Customer connection fees	<u>15,419</u>	<u>36,160</u>
Net cash used by capital and related financing activities	<u>(366,888)</u>	<u>(554,522)</u>
Cash flows from investing activities:		
Sale (acquisition) of unrestricted investments	(6,043)	144,817
Interest received on cash deposits and investments	<u>9,024</u>	<u>6,795</u>
Net cash provided by investing activities	<u>2,981</u>	<u>151,612</u>
Increase (decrease) in cash and cash equivalents	58,578	12,450

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Increase (decrease) in cash and cash equivalents (from page 12)	58,578	12,450
Cash and cash equivalents at the beginning of the year	<u>765,163</u>	<u>752,713</u>
Cash and cash equivalents at the end of the year	<u>\$ 823,741</u>	<u>\$ 765,163</u>
Reconciliation of cash and cash equivalents at the end of the year		
Unrestricted cash and cash equivalents	\$ 744,920	\$ 683,000
Restricted cash and cash equivalents	<u>78,821</u>	<u>82,163</u>
Total cash and cash equivalents at the end of the year	<u>\$ 823,741</u>	<u>\$ 765,163</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ (1,961)	\$ (13,103)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	331,020	326,762
(Increase) decrease in:		
Customer accounts receivable	12,238	3,481
Unbilled receivable	1,013	1,288
Other receivables	(25,951)	-
Interest receivable	(1,187)	
Inventory	1,493	(2,222)
Prepaid expenses	(1,147)	(1,348)
Increase (decrease) in:		
Accounts payable, trade accounts	11,636	1,550
Accrued liabilities	6,385	5,194
Accrued compensated absences	1,616	-
Changes in net pension liability	40,837	208,655
Changes in deferred outflows of resources	(40,945)	(95,151)
Changes in deferred inflows of resources	85,669	(30,241)
Customer deposits	<u>1,769</u>	<u>10,495</u>
Net cash provided by operating activities	<u>\$ 422,485</u>	<u>\$ 415,360</u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Clark County Water District is a "Class B" water district located in Clark County, Kentucky, with principal offices located at 118 Hopkins Lane, Winchester, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a five-member commission consisting of a chairman and four commissioners, all appointed by Clark County Fiscal Court. Water is purchased from Winchester Municipal Utilities and Kentucky American Water Company and resold to approximately 2,400 residential and commercial customers.

Basis of Accounting and Measurement Focus

The District is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the public on a continuing basis are financed primarily through user charges.

The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water to customers in connection with the District's ongoing operations. The principal operating revenues are charges to customers for water sales and services. Operating expenses include the cost of purchased water and other related service expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues and expenses generally result from contracts with other entities to move existing water lines as required by road and railroad maintenance and improvements.

Property and Equipment

The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2017 and 2016.



EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets. Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

Lines and storage	50 years
Building	30 years
Pumps and treatment equipment	20 years
Maintenance equipment and vehicles	3-10 years
Office furniture and equipment	3-5 years

Capital Grants and Subsidies

The purchase of property and equipment acquired by grants and subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as non-operating revenue. These grants and subsidies are not subject to repayment. Certain plant assets have been contributed by customers. These contributions are not subject to repayment.

Receivables

All receivables are reported at their gross value. Estimated un-billed revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. No allowance for doubtful accounts is provided. The District identifies and writes off uncollectible accounts as they occur. Amounts written off as of December 31, 2017 and 2016 were \$4,826 and \$5,426, respectively.

Vacation, Sick Leave, and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Paid vacation time accrues at the rate of one to three weeks based on the length of employment. Unused vacation time may be carried forward from one year to the next with certain limitations. Other compensated absences do not vest and are recorded as expenditures when they are paid.

Pensions

For the 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 Kentucky County Employee 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. For this purpose, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The District includes in cash and cash equivalents, cash on hand and unrestricted cash in checking, money market accounts, federated treasury obligation funds, and unrestricted certificates of deposit with maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market value on a first-in, first-out basis.

Investments

Investments consist of certificates of deposits with maturity dates of three months or more. Management believes the face value of the certificates approximates their market value. Certificates of deposit in excess of FDIC insurance are collateralized by securities held by the pledging institution.

Interest

Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2017 and 2016.

Deferred Outflows/Inflows of Resources

The Statement of Net Position includes a separate section for Deferred Outflows of Resources. This represents the usage of net position applicable to future periods and will be recognized as expenditures in the future period to which it applies. This category includes amounts related to pensions for certain actuarially determined differences between projected and actual investment earnings as well as contributions made by the District subsequent to the measurement date.

The Statement of Net Position includes a separate section for Deferred Inflows of Resources. This represents the acquisition of net position applicable to future periods and will be recognized as revenue in the future period to which it applies. This category includes amounts related to pensions for certain actuarially determined differences between projected and actual experience.

Net Position Classifications

The District records restrictions for portions of its net position which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriation. Unrestricted portions of net position indicate amounts which are available for appropriation in future periods.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position Classifications (Continued)

Restrictions in net position are classified as follows:

- **Net Investment in capital assets** includes the District's capital assets, (net of accumulated depreciation) reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The net investment in capital assets also reflects any related balances in deferred outflows or inflows of resources.
- **Restricted for Debt Service** includes assets that have been set aside as required by statute or bond covenant for the future payment of the District's Debt.
- **Restricted for Plant Renewal and replacement** includes assets that have been set aside for future additions, repairs or replacement of property, plant or infrastructure.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

New Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will revise employer accounting and reporting for other postemployment benefits (OPEB) and implement requirements similar to the provisions of GASBS No. 68 and No. 73 for pension benefits. GASBS No. 75 will be effective for the Utility beginning January 1, 2018 and will require the Utility to report its proportionate share of the net OPEB liability, deferred outflows and inflows of resources, and OPEB expense related to the CERS cost-sharing defined benefit OPEB plan. In addition, the Utility's note disclosures for the CERS cost-sharing defined benefit OPEB plan will be expanded to include a description of the state's proportionate shares of these balances related to the Utility. The Utility has not determined the financial impact of the implementation of GASBS No. 75.

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS

The District investment policies conform to state statutes. The District deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities of one year with banks. Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky Revenue Bonds. The District's deposits and investments are collateralized with securities held by the bank's trust department in the District's name or letter of credit held by a third party in the District's name.

*Custodial Credit Risk-Deposits.* Custodial credit risk is the risk that in the event of the failure of a financial institution, the District's deposits and/or investments may not be returned to it. The District does not have a deposit policy for custodial credit risk.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS (CONTINUED)

As of December 31, 2017, and 2016, District's total deposits at banks of \$ 1,870,675 and \$1,806,054, respectively, were exposed to custodial credit risk as follows:

	2017	2016
Insured, collateral held by third party		
In the District's name	\$ 500,000	\$ 500,000
Insured, collateral held by pledging bank's		
trust department in the District's name	<u>1,453,455</u>	<u>1,485,668</u>
	\$ <u>1,953,455</u>	\$ <u>1,985,668</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. All of the District's fair value measurements are based upon level 1 inputs.

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

The Bond Resolutions require the creation of various separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions follows:

Revenue Fund

All income to the District is deposited to the Revenue Fund, and then transferred to the other funds as indicated below.

Bond and Interest Sinking Funds and Sinking Fund Reserves

The Bond and Interest Sinking Funds were established to provide sources of funds for the payment of bond principal and interest, currently due. Each month funds equal to the total of (1) one-sixth of the next succeeding semiannual interest payment plus (2) one-twelfth of the next annual bond principal payments are to be transferred to the funds. For the years ended December 31, 2017 and 2016 the required Sinking Fund Reserve balances were \$117,001 and \$117,001, respectively.

Depreciation Reserve Fund

The Depreciation Reserve Fund was established to provide funds for extraordinary repairs, betterments, and expansion. The District is required to deposit \$160 into the fund each month until the accumulated balance equals \$19,200. Funds may be used as needed, but the balance must be restored to \$19,200, as soon as possible, so long as any bonds are outstanding and unpaid.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH (CONTINUED)

Operation and Maintenance Fund

Monthly sums, sufficient to meet the current expenses of operating and maintaining the system, are to be transferred from the Revenue Fund. The balance shall not be in excess of an amount sufficient to cover anticipated expenditures for a two-month period, which is approximately \$150,000. The balances as of December 31, 2017 and 2016 were \$21,797 and \$34,240, respectively.

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Activity for plant and equipment, which is capitalized by the District for the year ended December 31, 2017 and 2016, is summarized below:

	Balance Dec. 31, 2016	Additions	Retirements	Balance Dec. 31, 2017
Non depreciable assets:				
Land	\$ 90,044	\$ -	\$ -	\$ 90,044
Depreciable assets:				
Buildings and improvements	572,589	8,563	-	581,152
Pumps	98,539	-	-	98,539
Lines and storage	11,095,831	-	-	11,095,831
Meters	1,048,103	21,317	-	1,069,420
Office equipment	67,625	5,993	2,495	71,123
Vehicles	211,099	33,377	21,550	222,926
Maintenance equipment	265,359	6,955	-	272,314
Total depreciable assets	<u>13,359,145</u>	<u>76,205</u>	<u>24,045</u>	<u>13,411,305</u>
Less Accumulated depreciation:				
Buildings and improvements	231,109	4,678	-	235,787
Pumps	49,879	20,033	-	69,912
Lines and storage	3,930,645	226,608	-	4,157,253
Meters	443,191	52,824	-	496,015
Office equipment	63,937	1,176	2,495	62,618
Vehicles	139,330	13,176	21,550	130,956
Maintenance equipment	146,914	12,525	-	159,439
Total accum. Depreciation	<u>5,005,005</u>	<u>331,020</u>	<u>24,045</u>	<u>5,311,980</u>
Depreciable assets, net	<u>8,354,140</u>	<u>(254,815)</u>	<u>-</u>	<u>8,099,325</u>
Total capital assets, net of depreciation	\$ <u>8,444,184</u>	\$ <u>(254,815)</u>	\$ <u>-</u>	\$ <u>8,189,369</u>

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

	Balance <u>Dec. 31, 2015</u>	Additions	Retirements	Balance <u>Dec. 31, 2016</u>
Non depreciable assets:				
Land	\$ <u>58,044</u>	\$ <u>45,000</u>	\$ <u>13,000</u>	\$ <u>90,044</u>
Depreciable assets:				
Buildings and improvements	450,145	185,600	63,156	572,589
Pumps	95,136	3,403	-	98,539
Lines and storage	11,095,831	-	-	11,095,831
Meters	1,009,669	38,434	-	1,048,103
Office equipment	66,454	1,171	-	67,625
Vehicles	182,709	28,390	-	211,099
Maintenance equipment	258,364	6,995	-	265,359
Total depreciable assets	<u>13,158,308</u>	<u>263,993</u>	<u>63,156</u>	<u>13,359,145</u>
Less Accumulated depreciation:				
Buildings and improvements	236,724	21,570	27,185	231,109
Pumps	47,066	2,813	-	49,879
Lines and storage	3,705,307	225,338	-	3,930,645
Meters	391,803	51,388	-	443,191
Office equipment	62,579	1,358	-	63,937
Vehicles	128,189	11,141	-	139,330
Maintenance equipment	133,759	13,155	-	146,914
Total accum. Depreciation	<u>4,705,427</u>	<u>326,763</u>	<u>27,185</u>	<u>5,005,005</u>
Depreciable assets, net	<u>8,452,881</u>	<u>(62,770)</u>	<u>35,971</u>	<u>8,354,140</u>
Total capital assets, net of depreciation	\$ <u>8,510,925</u>	\$ <u>(17,770)</u>	\$ <u>48,971</u>	\$ <u>8,444,184</u>

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 5 – LONG TERM DEBT AND LEASES

The District issues revenue bonds to finance improvements and extensions to water lines. During 2017 and 2016 the District issued no new revenue bonds.

At December 31, 2017 and 2016, East Clark County Water District had the following long term debt and leases outstanding:

2017 Bonds:

Description	Balance Dec. 31, 2016	New Issue	Principal Payment	Balance Dec. 31, 2017	Due within one year
East Clark County Water District Waterworks Bonds, Series of 1978, with interest of 5% payable January 1 and July 1	\$ 18,000	\$ -	\$ 18,000	\$ -	\$ -
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable January 1 and July 1	575,000	-	35,000	540,000	35,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds, with interest of 2.15% to 4.275% payable January 1 and July 1	425,000	-	20,000	405,000	20,000
East Clark County Water District Water Works Refunding Bonds, Series 2013C, with interest of 2.3% to 4.8% payable January 1 and July 1	100,000	-	10,000	90,000	10,000
Bond Premium	24,832	-	949	23,883	-
	<u>\$ 1,142,832</u>	<u>\$ -</u>	<u>\$ 83,949</u>	<u>\$ 1,058,883</u>	<u>\$ 65,000</u>

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

2016 Bonds:

Description	Balance Dec. 31, 2015	New Issue	Principal Payment	Balance Dec. 31, 2016	Due within one year
East Clark County Water District Waterworks Bonds, Series of 1978, with interest of 5% payable January 1 and July 1	\$ 35,000	\$ -	\$ 17,000	\$ 18,000	\$ 18,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable January 1 and July 1	610,000	-	35,000	575,000	35,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds, with interest of 2.15% to 4.275% payable January 1 and July 1	445,000	-	20,000	425,000	20,000
East Clark County Water District Water Works Refunding Bonds, Series 2013C, with interest of 2.3% to 4.8% payable January 1 and July 1	110,000	-	10,000	100,000	10,000
Bond Premium	15,790	9,042	-	24,832	-
	\$ <u>1,215,790</u>	\$ <u>9,042</u>	\$ <u>82,000</u>	\$ <u>1,142,832</u>	\$ <u>83,000</u>



EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

The debt service on the bonds is as follows:

Due the year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 65,000	\$ 40,213	\$ 105,213
2019	70,000	37,911	107,911
2020	75,000	35,365	110,365
2021	70,000	32,759	102,759
2022	80,000	29,959	109,959
2023-2027	390,000	102,709	492,709
2028-2031	285,000	24,753	309,753
	<u>\$ 1,035,000</u>	<u>\$ 303,669</u>	<u>\$ 1,338,669</u>

Capital leases

The District is obligated under financing arrangements accounted for as capital leases. These leases were entered to fund the development of waterlines. The cumulative amount of assets acquired under the leases amounts to \$2,514,533 with accumulated depreciation of \$1,136,658 and \$1,086,367 as of December 31, 2017 and 2016, respectively. Capital lease obligations and changes for 2017 and 2016 are as follows:

	Balance December 31, 2016	<u>Additions</u>	<u>Payments</u>	Balance December 31, 2017	Due in One Year
KACO #2	\$ 162,000	\$ -	\$ 79,000	\$ 83,000	\$ 83,000
KACO #3	284,000	-	90,000	194,000	94,000
	<u>\$ 446,000</u>	<u>\$ -</u>	<u>\$169,000</u>	<u>\$ 277,000</u>	<u>\$ 177,000</u>

  

	Balance December 31, 2015	<u>Additions</u>	<u>Payments</u>	Balance December 31, 2016	Due in One Year
KACO #1	\$ 33,000	\$ -	\$ 33,000	-	-
KACO #2	238,000	-	76,000	162,000	79,000
KACO #3	369,000	-	85,000	284,000	90,000
	<u>\$ 640,000</u>	<u>\$ -</u>	<u>\$194,000</u>	<u>\$ 446,000</u>	<u>\$ 169,000</u>

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

**NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)**

The following is a schedule of future minimum lease payments, together with the net present value of the minimum lease payments at December 31, 2017:

<u>Year ending December 31,</u>	<u>Lease Payments</u>
2018	\$ 186,020
2019	<u>100,851</u>
Total minimum lease payments	286,871
Less:	
Amount representing interest at the District's incremental borrowing rate	<u>(9,871)</u>
	<u>\$ 277,000</u>

**NOTE 6 – INSURANCE**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and customers; or acts of God. The District insures against these risks through insurance policies obtained from commercial vendors. The District has pooled its risk for worker's compensation insurance. The District pays an annual premium for insurance coverage and is liable for additional premium assessments as determined by the pool. At December 31, 2017 and 2016, no additional premium assessment had been made. Other insurable risks are covered by policies with conventional insurance companies.

**NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS)**

**General information about the County Employees Retirement System Non-Hazardous ("CERS")  
Plan Description**

All District employees are covered by the CERS non-hazardous pension plan, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the fiduciary responsibility to administer the plan in accordance with Kentucky Revised Statutes. The Kentucky General Assembly has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

**Benefits provided**

CERS provides retirement, health insurance, death and disability benefits to Plan members and beneficiaries. Retirement benefits are classified by the Tier in which the member participates. Tier 1 and Tier 2 are defined benefit plans with variations in how the benefits are calculated.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Tier 3 is a cash balance plan that includes guaranteed rates of return for member contributions. Tier 3 benefits are based on accumulated contributions and earnings credited to the member's account.

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 At least 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 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

CERS Post-employment healthcare benefits

Plan Description—CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance covered based on the retired member's years of service and type of service. Members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Retirees receive \$10 toward the monthly premium for each full year of service. The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004.

Funding policy—CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2017 measurement period, CERS allocated 4.73% of the 18.68% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1% of the Tier 2 and 3, 6% employee contributions are allocated to the health insurance plan.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Contributions—Employer contributions compared to the actuarially required contributions are outlined in the following table:

	2017	2016	2015
Actuarially Required Contributions	\$ 11,294	\$ 11,993	\$ 12,997
Contributions Recognized by Plan	\$ 11,294	\$ 11,993	\$ 12,997
Difference	\$ -	\$ -	\$ -
Covered Payroll	\$ 238,770	\$ 255,169	\$ 263,636
Contributions as Percentage of Payroll	4.73%	4.70%	4.93%

Cost of living adjustments are provided at the discretion of the General Assembly. Beginning in 2015, COLAs were suspended until the retirement funds reach 100% funded status.

Retirement benefits are calculated using factors for the number of years' service multiplied by the "final compensation." Reduced benefits are based on factors of both of these components. Again, the definitions of "final compensation" and the benefit factor for years' of service depend on the Tier in which the member participates. Benefits in Tier 3, the cash balance plan, are limited to the accumulated contributions and earnings credited to the member's account, similar to a defined contribution plan.

There are, however, minimum rates of return that are guaranteed and funded with employer contributions when actual earnings are less than these minimum rates.

Tier 1	Final Compensation	Average of the highest 5 fiscal years
	Benefit Factor	2.2% prior to 8/1/2004 or 2% after 8/1/2004
	Interest on member accounts	2%
Tier 2	Final Compensation	5 complete fiscal years preceding retirement
	Benefit Factor	Scale of 1.1% to 2% based on number of years of service
	Interest on member accounts	2.50%
Tier 3	Final Compensation	N/A
	Benefit Factor	N/A
	Interest on member accounts	4% plus 75% of the 5 year geometric average earnings in excess of 4%
	Employer Pay Credit	4% of creditable compensation

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

The 2018 General Assembly enacted several changes to the CERS non-hazardous plan, including the deletion of a guaranteed return for the hybrid cash plan. Interest on member accounts will be determined using 85% of the ten-year geometric average earnings of the CERS non-hazardous plan.

Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are provided in a \$5,000 lump sum payment. The \$5,000 death benefit was also deleted in the 2018 changes to benefits.

- Death benefits before retirement are based on the member's eligibility for normal or early retirement at the time of death, or five years of service if the member is under the age of 55, or 144 months of service if the member is no longer working for a participating agency.
- If beneficiaries are eligible for benefits, they may choose a lifetime monthly benefit or a lump sum payment for an actuarial refund, or annuities for 5 or 10 years of monthly payments.
- If the beneficiary is not eligible for monthly benefits, a lump sum payment of the member's contributions and accumulated interest will be paid. Beneficiaries of Tier 3 members will also include the employer pay credit if the member has at least 5 years of service at the time of death.
- If the member dies as a result of a duty-related death, the decedent's beneficiary will receive the higher of the normal death benefit or \$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.
- Dependent children also receive benefits for duty-related deaths as a monthly benefit equal to 10% of the member's monthly final rate of pay. But, dependent children benefits cannot total more than 40% of the monthly final rate of pay.

Contributions

Required contributions by the employee are based on the Tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2017 and 2016, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net CERS pension liability	
2017 (.010048%)	\$ 588,140
2016 (.01116%)	\$ 547,303

The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017 and 2016, the District's proportion was 0.010048% and 0.01116% respectively. For the years ended December 31, 2017 and 2016, the District recognized pension expense of \$134,509 and \$135,985, respectively, for members in CERS.

At June 30, 2017 and 2016, District reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2017	2016	2017	2016
Differences between expected and actual experience	\$ 729	\$ 2,389	\$ 14,930	\$ -
Changes of assumptions	108,528	28,993	-	-
Net difference between expected and actual earnings on pension plan investments	46,580	51,452	39,305	-
Changes in proportion and differences between District contributions and proportionate share of contributions	5,214	12,317	31,434	-
District contributions subsequent to the measurements date	44,820	69,775	-	-
	<u>\$ 205,871</u>	<u>\$ 164,926</u>	<u>\$ 85,669</u>	<u>\$ -</u>

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date for the 2017 plan year in the amount of \$44,820 will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date for the 2016 plan year in the amount of \$69,775 were recognized as a reduction of the net pension liability in the year ended December 31, 2017.

Amortization of other amounts reported as deferred outflows and inflows of resources related to pensions is as follows:

	2017	2016
2017	\$ -	\$26,370
2018	\$36,869	\$26,370
2019	\$32,621	\$13,379
2020	\$13,443	\$ 2,912
2021	\$ (7,552)	\$ -

Actuarial Assumptions

The total pension liability in the June 30, 2017 and 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2017</u>	<u>2016</u>
Inflation	2.30%	3.25%
Projected salary increases	3.30% - 11.55% (varies by service)	4.00%
Investment rate of return, net of investment expense & inflation	6.25%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. At the time of the last experience study, performed as of June 30, 2013, this mortality assumption provided 37% and 19% margin for future improvement for males and females, respectively. This will be reviewed again when the next experience investigation is conducted.

Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

In May 2017, the Kentucky Retirement Systems Board of Trustees adopted a new asset allocation policy based on recommendations from the investment professionals serving as trustees in the Board. The actuarial valuation used a long-term expected rate of return 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 rates of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS' investment trustees, are summarized in the following table:

<u>Asset Class</u>	<u>2017</u>		<u>2016</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	17.5%	5.97%	-	-
International Equity	17.5%	7.85%	-	-
Combined Equity	-	-	44.0%	5.40%
Global Bonds	4.0%	2.63%	-	-
Global Credit	2.0%	3.63%	-	-
Combined Fixed Income	-	-	19.0%	1.50%
High Yield	7.0%	5.75%	-	-
Emerging Market Debt	5.0%	5.50%	-	-
Private Credit	10.0%	8.75%	-	-
Real Estate	5.0%	7.63%	5.0%	4.50%
Absolute Return	10.0%	5.63%	10.0%	4.25%
Real Return	10.0%	6.13%	10.0%	3.50%
Private Equity	10.0%	8.25%	10.0%	8.50%
Cash	<u>2.0%</u>	1.88%	<u>2.0%</u>	-0.25%
Total	<u>100.0%</u>		<u>100.0%</u>	

Discount rate

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



EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

*Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
2017	5.25%	6.25%	7.25%
District's proportionate share of net pension liability:	\$ 741,772	\$ 588,140	\$ 459,629
2016	6.50%	7.50%	8.50%
District's proportionate share of net pension liability:	\$ 682,282	\$ 547,303	\$ 431,977

Pension plan fiduciary net position

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

Other Pension Plans

Also, ECCWD offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency.

GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. ECCWD, therefore, does not report these assets and liabilities on its financial statements.

Employee contributions made to the 457 plan as of December 31, 2017, and 2016 were \$6,475 and \$4,149, respectively. ECCWD does not contribute to these plans.

NOTE 8 - PURCHASED WATER

The District entered into a written agreement to purchase all its water from Winchester Municipal Utilities (WMU). The term of the contract is for twenty years ending July 15, 2019 with an option to renew for an additional period of twenty years. The District purchases water at \$1.72 per 100 cubic feet of water. This rate is subject to periodic increases by WMU. With the approval of the Public Service Commission, the District may pass these rate increases along to its customers. Water is delivered to the District by meters maintained by WMU.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017 AND 2016

NOTE 9 – SUBSEQUENT EVENT

The district has evaluated subsequent events through May 24, 2018, the date on which these financial statements were available to be issued.

NOTE 10—RESTATEMENT

The district has restated its financial statements for the year ended December 31, 2016 to record CERS pension amounts per the June 30, 2016 GASB 68 actuarial report. These amounts had previously been reported per the June 30, 2015 GASB 68 actuarial report. This restatement had the following effect on the financial statements for the year ended December 31, 2016:

	Originally Stated	Restated	Change
Total Operating Expenses	\$ 1,410,758	\$ 1,439,915	\$ 29,157
Change in Net Position	\$ (821)	\$ (29,978)	\$ (29,157)
Deferred Outflows of Resources	\$ 117,871	\$ 164,926	\$ 47,055
Unfunded Pension Liability	\$ 471,091	\$ 547,303	\$ 76,212
Total Net Position	\$ 8,329,359	\$ 8,300,202	\$ (29,157)

## REQUIRED SUPPLEMENTARY INFORMATION

EAST CLARK COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2017 and 2016

	2017 Budget	2017 Actual	Favorable (Unfavorable)	2016 Budget	2016 Actual	Favorable (Unfavorable)
Operating revenues:						
Water sales	\$ 1,397,000	\$ 1,377,078	\$ (19,922)	\$ 1,425,000	\$ 1,390,053	\$ (34,947)
Other operating income	45,000	\$ 51,723	6,723	45,000	36,759	(8,241)
Total operating revenues	<u>1,442,000</u>	<u>1,428,801</u>	<u>(13,199)</u>	<u>1,470,000</u>	<u>1,426,812</u>	<u>(43,188)</u>
Operating expenses:						
Operation and maintenance	1,060,000	1,078,206	(18,206)	1,062,000	1,090,669	(28,669)
Depreciation and amortization	350,000	331,020	18,980	340,000	326,762	13,238
Taxes	30,000	21,536	8,464	30,000	22,484	7,516
Total operating expenses	<u>1,440,000</u>	<u>1,430,762</u>	<u>9,238</u>	<u>1,432,000</u>	<u>1,439,915</u>	<u>(7,915)</u>
Operating income	<u>2,000</u>	<u>(1,961)</u>	<u>(3,961)</u>	<u>38,000</u>	<u>(13,103)</u>	<u>(51,103)</u>
Non-operating revenues (expenses):						
Non-operating revenues	98,000	99,594	1,594	-	-	-
Interest income	7,500	9,024	1,524	6,000	7,870	1,870
Sale/disposal of surplus equipment	-	3,210	3,210	8,000	7,985	(15)
State grants and customer connection fees	15,000	15,419	419	32,000	36,160	4,160
Interest expense	(57,100)	(60,948)	(3,848)	(69,000)	(68,890)	110
Non-operating expenses	(96,600)	(95,845)	755	-	-	-
Total non-operating revenues (expenses)	<u>(33,200)</u>	<u>(29,546)</u>	<u>3,654</u>	<u>(23,000)</u>	<u>(16,875)</u>	<u>6,125</u>
Change in net position	<u>\$ (31,200)</u>	<u>\$ (31,507)</u>	<u>\$ (307)</u>	<u>\$ 15,000</u>	<u>\$ (29,978)</u>	<u>\$ (44,978)</u>

EAST CLARK COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015

	Reporting Fiscal Year (Measurement Date) 12/31/2017 (6/30/2017)	Reporting Fiscal Year (Measurement Date) 12/31/2016 (6/30/2016)	Reporting Fiscal Year (Measurement Date) 12/31/2015 (6/30/2015)
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM:</b>			
<b>Non-Hazardous</b>			
ECCWD's proportion of the net pension liability	0.01005%	0.01116%	0.01096%
ECCWD's proportionate share of the net pension liability	\$ 588,140	\$ 547,303	\$ 471,091
ECCWD's covered-employee payroll	\$ 238,770	\$ 255,169	\$ 263,636
ECCWD's proportionate share of the net pension liability as a percentage of its covered-employee payroll	246.321%	214.486%	178.690%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%

**Note:** Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See accompanying Notes to the required supplementary information

EAST CLARK COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF CONTRIBUTIONS  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM:</b>			
<b>Non-Hazardous</b>			
Contractually required contribution	\$ 34,127	\$ 31,581	\$ 32,731
Contributions in relation to the contractually required contribution	<u>34,127</u>	<u>31,581</u>	<u>32,731</u>
Contribution deficiency (excess)	-	-	-
ECCWD's covered-employee payroll	\$ 238,770	\$ 255,169	\$ 263,636
ECCWD's contributions in relation to the contractually required contribution as a percentage of its covered-employee payroll	14.29%	12.38%	12.42%

**Note:** Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See accompanying Notes to the required supplementary information

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015

**COUNTY EMPLOYEES RETIREMENT SYSTEM:**

**Actuarial Methods and Assumptions:**

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all Systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, (2% payroll growth assumed)
Remaining Amortization Period	26 Years
Asset Valuation Method	5 year Smoothed Market
Inflation	2.30%
Salary Increase	3.30% to 11.55% (varies by service)
Investment Rate of Return	6.25%

**Changes of Benefit Terms -**

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for member whose participation date is on or after January 1, 2014

**Changes of Assumptions:**

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

The assumed rate of inflation was reduced from 3.25% to 2.30%.

The assumed rate of wage inflation remained .75%

Payroll growth assumption remained 4%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

## SUPPLEMENTARY INFORMATION



EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
	\$	\$	\$	\$	\$
Purchased water	-	328,197	-	-	328,197
Depreciation	-	-	-	331,020	331,020
Salaries	168,288	-	109,517	-	277,805
Employee benefits	125,318	-	81,553	-	206,871
Supplies	44,910	-	13,001	-	57,911
Repairs and maintenance	13,691	-	7,459	-	21,150
Outside services	7,835	-	5,605	-	13,440
Technology	6,090	-	-	-	6,090
Commissioners' salaries	-	-	30,000	-	30,000
Payroll tax expense	13,046	-	8,490	-	21,536
Professional fees	-	-	19,500	-	19,500
Utilities	19,763	-	7,534	-	27,297
Truck expense	16,074	-	2,188	-	18,262
Equipment rental	144	-	25	-	169
Fuel for equipment	-	-	-	-	-
Insurance	-	-	27,987	-	27,987
Postage	-	-	14,081	-	14,081
Bad debts	-	-	4,826	-	4,826
Miscellaneous	-	-	7,939	-	7,939
Telephone	3,579	-	2,881	-	6,460
Dues and subscriptions	-	-	2,126	-	2,126
Loading station expense	2,151	-	-	-	2,151
Employee training and seminars	-	-	1,850	-	1,850
PSC assessment	-	-	2,848	-	2,848
Uniforms	-	-	1,944	-	1,944
Lab testing	4,108	-	-	-	4,108
Travel and meals expense	-	-	804	-	804
Capitalized overhead allocation	(5,610)	-	-	-	(5,610)
	<u>\$ 419,387</u>	<u>\$ 328,197</u>	<u>\$ 352,158</u>	<u>\$ 331,020</u>	<u>\$ 1,430,762</u>

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
	\$	\$	\$	\$	\$
Purchased water	-	325,345	-	-	325,345
Depreciation	-	-	-	326,762	326,762
Salaries	152,920	-	102,249	-	255,169
Employee benefits	143,109	-	95,440	-	238,549
Supplies	47,039	-	2,657	-	49,696
Repairs and maintenance	7,475	-	9,817	-	17,292
Outside services	8,549	-	25,312	-	33,861
Technology	1,464	-	-	-	1,464
Commissioners' salaries	-	-	30,000	-	30,000
Payroll tax expense	13,490	-	8,994	-	22,484
Professional fees	-	-	20,425	-	20,425
Utilities	20,215	-	8,262	-	28,477
Truck expense	19,487	-	1,564	-	21,051
Equipment rental	611	-	-	-	611
Insurance	-	-	28,213	-	28,213
Postage	-	-	14,373	-	14,373
Bad debts	-	-	5,426	-	5,426
Miscellaneous	-	-	9,499	-	9,499
Telephone	3,660	-	2,751	-	6,411
Dues and subscriptions	-	-	294	-	294
Loading station expense	1,365	-	-	-	1,365
Employee training and seminars	-	-	5,384	-	5,384
PSC assessment	-	-	2,790	-	2,790
Uniforms	-	-	1,852	-	1,852
Lab testing	5,286	-	-	-	5,286
Travel and meals expense	-	-	747	-	747
Capitalized overhead allocation	(12,911)	-	-	-	(12,911)
	<u>\$ 411,759</u>	<u>\$ 325,345</u>	<u>\$ 376,049</u>	<u>\$ 326,762</u>	<u>\$ 1,439,915</u>

SUMMERS, MCCRARY & SPARKS, P.S.C.  
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners of  
East Clark County Water District  
Winchester, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the East Clark County Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the East Clark County Water District's basic financial statements, and have issued our report thereon dated May 24, 2018.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the East Clark County Water 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*.

## **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.

Summers, McCrary & Sparks, PSC

Winchester, Kentucky

May 24, 2018