

EAST CLARK COUNTY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

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EMILY N. JACKSON, CPA

LAURENCE T. SUMMERS
1961-1992

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

110 EAST LOWRY LANE, LEXINGTON, KY 40503, (859) 264-8785 FAX (859) 264-1736
201 SOUTH MAIN STREET, WINCHESTER, KY 40391, (859) 745-1174 FAX (859) 745-2433

Change in Accounting Principle

As described in Note 11 to the financial statements, in 2018, the District adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

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, 2018 and 2017, and the respective changes in net 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, the Statements of Revenue, Expenditures and Changes in Net Position – Budget and Actual, the Schedules of Proportionate Share and the Schedules of Contributions and related notes on pages 4–8, and 38-44 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, 2018 and 2017 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, 2018 and 2017 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, 2018 and 2017 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 31, 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 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 31, 2019

**EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2018 AND 2017**

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, 2018, 2017, and 2016. 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.

2018 FINANCIAL HIGHLIGHTS

- The District's operating revenues and operating expenses remained consistent with the prior year.
- The District's total assets and deferred outflows of resources decreased \$272,855 and total liabilities and deferred inflows of resources decreased \$177,556 from 2017 to 2018, resulting in a decrease in total net position of \$95,299 or 1.18% from the prior year.
- Interest income for 2018 was \$16,326, which is an increase of \$7,302 over interest income in 2017.

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, 2018 AND 2017

Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 2,022,888	\$ 2,083,326	\$ 2,005,164
Capital Assets, net of depreciation	<u>7,984,306</u>	<u>8,189,369</u>	<u>8,444,184</u>
Total Assets	<u>10,007,194</u>	<u>10,272,695</u>	<u>10,449,348</u>
Deferred Outflows of resources	<u>242,471</u>	<u>249,825</u>	<u>164,926</u>
Debt outstanding	1,091,688	1,335,883	1,588,832
Other liabilities	<u>1,049,635</u>	<u>990,318</u>	<u>725,240</u>
Total liabilities	<u>2,141,323</u>	<u>2,326,201</u>	<u>2,314,072</u>
Deferred Inflows of resources	<u>103,567</u>	<u>96,245</u>	<u>-</u>
Investment in capital assets, net of depreciation	6,892,618	6,853,486	6,855,352
Restricted net assets	136,201	136,201	136,201
Unrestricted net assets	<u>975,956</u>	<u>1,110,387</u>	<u>1,308,649</u>
Total net position	\$ <u>8,004,775</u>	\$ <u>8,100,074</u>	\$ <u>8,300,202</u>

Net position decreased \$95,299 from 2017 to 2018, a decrease of 1.18%. Debt outstanding decreased \$244,195 or 18.3% from 2017.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2018 AND 2017

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 1,409,595	\$ 1,428,801	\$ 1,426,812
Non-operating revenues	<u>23,928</u>	<u>111,828</u>	<u>15,855</u>
Total revenues	<u>1,433,523</u>	<u>1,540,629</u>	<u>1,442,667</u>
Operating Expenses	1,164,419	1,268,363	1,113,153
Depreciation	333,343	331,020	326,762
Non-operating expense	<u>52,828</u>	<u>156,793</u>	<u>68,890</u>
Total expenses	<u>1,550,590</u>	<u>1,756,176</u>	<u>1,508,805</u>
Net income	(117,067)	(215,547)	(66,138)
Customer connection fees	<u>21,768</u>	<u>15,419</u>	<u>36,160</u>
Change in net position	(95,299)	(200,128)	(29,978)
Beginning net position	<u>8,100,074</u>	<u>8,300,202</u>	<u>8,330,180</u>
Ending net position	\$ <u><u>8,004,775</u></u>	\$ <u><u>8,100,074</u></u>	\$ <u><u>8,300,202</u></u>

The District's total revenue, excluding grants, decreased by \$107,106 or 6.95%. The decrease is due in part to the decrease in non-operating revenue. Total expenses decreased \$103,944 or 8.20%. The decrease is due to decrease in transmission, distribution and services, purchased water and the decrease in non-operating expenses. The increase in depreciation in 2018 of \$2,323 or 0.70% is attributed purchase of equipment. In 2018, non-operating revenue consists of income earned on the completion of a waterline re-location contract of \$4,075; interest income of \$16,326; and sale of scrap of \$3,527. 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 of \$3,210. In 2018, non-operating expenses consist of expenses related to the completion of a waterline re-location contract of \$3,719 and interest expense of \$49,109. 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 2017 non-operating income consists of interest income of \$7,870 and \$7,985 from the sale of scrap. In 2017, 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, 2018 AND 2017

CAPITAL EXPENDITURES

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital assets	\$ 13,585,151	\$ 13,501,349	\$ 13,449,189
Accumulated depreciation	<u>(5,600,845)</u>	<u>(5,311,980)</u>	<u>(5,005,005)</u>
	\$ <u>7,984,306</u>	\$ <u>8,189,369</u>	\$ <u>8,444,184</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 2018. Equipment acquisitions were financed from the District's reserve funds in 2018 and 2017. Contributions to capital amounted to \$21,768 in 2018 and \$15,419 in 2017 from new tap-on fees to existing lines.

BONDS AND CAPITAL LEASE OBLIGATIONS

Condensed Schedule of Debt

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Bonds	\$ 991,688	\$ 1,058,883	\$ 1,142,832
Capital lease obligations	<u>100,000</u>	<u>277,000</u>	<u>446,000</u>
Total	\$ <u>1,091,688</u>	\$ <u>1,335,883</u>	\$ <u>1,588,832</u>

The District made all its scheduled debt payments during 2018, and 2017.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2018 AND 2017

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

The District continues to sustain slow growth. Growth in 2019, is anticipated to remain at slow levels.

During 2018, 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.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 567,729	\$ 744,920
Investments	1,172,567	1,046,935
Receivables:		
Customer accounts	98,164	97,890
Unbilled	39,753	38,663
Accrued interest	7,919	4,554
Other receivables	4,076	25,951
Inventory, at cost	31,553	28,730
Prepaid expenses	17,595	16,862
	<hr/>	<hr/>
Total current assets	1,939,356	2,004,505
	<hr/>	<hr/>
Restricted assets:		
Cash and cash equivalents	83,532	78,821
	<hr/>	<hr/>
Total restricted assets	83,532	78,821
	<hr/>	<hr/>
Capital assets:		
Property, plant and equipment, net of depreciation	7,869,662	8,099,325
Construction in progress	24,600	-
Land	90,044	90,044
	<hr/>	<hr/>
	7,984,306	8,189,369
	<hr/>	<hr/>
Total assets	10,007,194	10,272,695
	<hr/>	<hr/>
Deferred outflows of resources	242,471	249,825
	<hr/>	<hr/>
Total assets and deferred outflows of resources	<u>\$ 10,249,665</u>	<u>\$ 10,522,520</u>

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2018 and 2017

LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable, trade	\$ 32,808	\$ 42,917
Accrued compensated absences	18,807	18,828
Accrued interest payable	21,279	21,529
Accrued liabilities	17,889	22,201
Lease obligations - current portion	100,000	177,000
Refundable customer deposits	102,522	94,704
Revenue bonds - current portion	<u>70,000</u>	<u>65,000</u>
Total current liabilities	<u>363,305</u>	<u>442,179</u>
Long-term liabilities:		
Revenue bonds net of current portion	921,688	993,883
Obligations under long-term lease net of current portion	-	100,000
Net OPEB liability	193,279	201,999
Net pension liability	<u>663,051</u>	<u>588,140</u>
Total long-term liabilities	<u>1,778,018</u>	<u>1,884,022</u>
Total liabilities	<u>2,141,323</u>	<u>2,326,201</u>
Deferred inflows of resources	<u>103,567</u>	<u>96,245</u>
Net Position		
Net Investment in capital assets	6,892,618	6,853,486
Restricted:		
Restricted for debt retirement	117,001	117,001
Restricted for plant renewal and replacement	19,200	19,200
Unrestricted	<u>975,956</u>	<u>1,110,387</u>
Total net position	<u>8,004,775</u>	<u>8,100,074</u>
Total liabilities, net position and deferred inflows of resources	<u><u>\$ 10,249,665</u></u>	<u><u>\$ 10,522,520</u></u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Water sales	\$ 1,363,268	\$ 1,377,078
Other operating income	<u>46,327</u>	<u>51,723</u>
Total operating revenues	<u>1,409,595</u>	<u>1,428,801</u>
Operating expenses		
Transmission, distribution and services	457,477	522,246
Purchased water	318,219	328,197
General and administrative	388,723	417,920
Depreciation	<u>333,343</u>	<u>331,020</u>
Total operating expenses	<u>1,497,762</u>	<u>1,599,383</u>
Operating income	<u>(88,167)</u>	<u>(170,582)</u>
Non-operating revenues (expenses):		
Non-operating revenues	4,075	99,594
Interest income	16,326	9,024
Customer connection fees	21,768	15,419
Gain on disposal of assets	3,527	3,210
Non-operating expenses	(3,719)	(95,845)
Interest expense	<u>(49,109)</u>	<u>(60,948)</u>
Total non-operating revenues (expenses)	<u>(7,132)</u>	<u>(29,546)</u>
Change in net position	(95,299)	(200,128)
Net position at the beginning of the year	<u>8,100,074</u>	<u>8,300,202</u>
Net position at the end of the year	<u><u>\$ 8,004,775</u></u>	<u><u>\$ 8,100,074</u></u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,434,559	\$ 1,442,052
Cash payments to suppliers for goods and services	(586,882)	(613,152)
Cash payments to employees and professional contractors for services	<u>(514,918)</u>	<u>(406,415)</u>
Net cash provided by operating activities	<u>332,759</u>	<u>422,485</u>
Cash flows from capital and related financing activities:		
Principal payments on bonds and lease obligations	(244,195)	(252,949)
Interest payments on bonds and lease obligations	(49,109)	(60,112)
Non-operating income	4,075	99,594
Non-operating expense	(3,719)	(95,845)
Purchase of fixed assets	(24,600)	-
Equipment purchased	(103,680)	(76,205)
Sales of real estate	0	-
Sale of surplus equipment	3,527	3,210
Customer connection fees	<u>21,768</u>	<u>15,419</u>
Net cash used by capital and related financing activities	<u>(395,933)</u>	<u>(366,888)</u>
Cash flows from investing activities:		
Sale (acquisition) of unrestricted investments	(125,632)	(6,043)
Interest received on cash deposits and investments	<u>16,326</u>	<u>9,024</u>
Net cash provided by investing activities	<u>(109,306)</u>	<u>2,981</u>
Increase (decrease) in cash and cash equivalents	(172,480)	58,578

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Increase (decrease) in cash and cash equivalents (from page 12)	(172,480)	58,578
Cash and cash equivalents at the beginning of the year	<u>823,741</u>	<u>765,163</u>
Cash and cash equivalents at the end of the year	<u>\$ 651,261</u>	<u>\$ 823,741</u>
Reconciliation of cash and cash equivalents at the end of the year		
Unrestricted cash and cash equivalents	\$ 567,729	\$ 744,920
Restricted cash and cash equivalents	<u>83,532</u>	<u>78,821</u>
Total cash and cash equivalents at the end of the year	<u>\$ 651,261</u>	<u>\$ 823,741</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ (88,167)	\$ (170,582)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	333,343	331,020
(Increase) decrease in:		
Customer accounts receivable	(274)	12,238
Unbilled receivable	(1,090)	1,013
Other receivables	21,875	(25,951)
Interest receivable	(3,365)	(1,187)
Inventory	(2,823)	1,493
Prepaid expenses	(733)	(1,147)
Increase (decrease) in:		
Accounts payable, trade accounts	(10,109)	11,636
Accrued liabilities	(4,562)	6,385
Accrued compensated absences	(21)	1,616
Changes in net pension liability	74,911	40,837
Changes in net OPEB liability	(8,720)	201,999
Changes in deferred outflows of resources	7,354	(84,899)
Changes in deferred inflows of resources	7,322	96,245
Customer deposits	<u>7,818</u>	<u>1,769</u>
Net cash provided by operating activities	<u>\$ 332,759</u>	<u>\$ 422,485</u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017 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
DECEMBER 31, 2018 AND 2017

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 2018 and 2017.

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 and other post-employment benefits (OPEB) 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 and OPEB 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
DECEMBER 31, 2018 AND 2017

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. 87, *Leases* (GASB 87), increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that lease are financings of the right to use an underlying asset. GASB 87 will be effective for reporting periods beginning after December 15, 2019. The District has not determined the financial impact of the implementation of GASBS No. 87.

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. This statement establishes criteria for identifying fiduciary activities for all state and local governments. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GASB 84 will be effective for reporting periods beginning after December 15, 2018. The District has not determined the financial impact of the implementation of GASBS No. 84.

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.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS (CONTINUED)

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.

As of December 31, 2018, and 2017, District's total deposits at banks of \$ 1,823,828 and \$1,870,675 respectively, were exposed to custodial credit risk as follows:

	<u>2018</u>	<u>2017</u>
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>1,468,192</u>	<u>1,453,455</u>
	\$ <u>1,968,192</u>	\$ <u>1,953,455</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. The District's fair value measurements are all 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, 2018 and 2017 the required Sinking Fund Reserve balances were \$117,001 and \$117,001, respectively.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

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.

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, 2018 and 2017 were \$ 77,372 and \$21,797, respectively.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Activity for plant and equipment, which is capitalized by the District for the year ended December 31, 2018 and 2017, is summarized below:

	Balance Dec. 31, 2017	Additions	Retirements	Balance Dec. 31, 2018
Non depreciable assets:				
Land	\$ 90,044	\$ -	\$ -	\$ 90,044
Construction in Progress	<u>-</u>	<u>24,600</u>	<u>-</u>	<u>24,600</u>
Total non-depreciable assets	<u>90,044</u>	<u>24,600</u>	<u>-</u>	<u>114,644</u>
Depreciable assets:				
Buildings and improvements	581,152	-	-	581,152
Pumps	98,539	-	-	98,539
Lines and storage	11,095,831	7,972	-	11,103,803
Meters	1,069,420	22,675	-	1,092,095
Office equipment	71,123	7,383	27,496	51,010
Vehicles	222,926	57,453	-	280,379
Maintenance equipment	<u>272,314</u>	<u>8,197</u>	<u>16,982</u>	<u>263,529</u>
Total depreciable assets	<u>13,411,305</u>	<u>103,680</u>	<u>44,478</u>	<u>13,470,507</u>
Less Accumulated depreciation:				
Buildings and improvements	235,787	4,928	-	240,715
Pumps	69,912	2,841	-	72,753
Lines and storage	4,157,253	226,083	-	4,383,336
Meters	496,015	53,924	-	549,939
Office equipment	62,618	1,951	27,496	37,073
Vehicles	130,956	13,923	-	144,879
Maintenance equipment	<u>159,439</u>	<u>29,693</u>	<u>16,982</u>	<u>172,150</u>
Total accum. Depreciation	<u>5,311,980</u>	<u>333,343</u>	<u>44,478</u>	<u>5,600,845</u>
Depreciable assets, net	<u>8,099,325</u>	<u>(229,663)</u>	<u>-</u>	<u>7,869,662</u>
Total capital assets, net of depreciation	\$ <u>8,189,369</u>	\$ <u>(205,063)</u>	\$ <u>-</u>	\$ <u>7,984,306</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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
DECEMBER 31, 2018 AND 2017

NOTE 5 – LONG TERM DEBT AND LEASES

The District issues revenue bonds to finance improvements and extensions to water lines. During 2018 and 2017 the District issued no new revenue bonds.

At December 31, 2018 and 2017, East Clark County Water District had the following long-term debt and leases outstanding:

2018 Bonds:

Description	Balance Dec. 31, 2017	New Issue	Principal Payment	Balance Dec. 31, 2018	Due within one year
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	\$ 540,000	\$ -	\$ 30,000	\$ 510,000	\$ 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	405,000	-	25,000	380,000	25,000
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	90,000	-	10,000	80,000	10,000
Bond Premium	<u>23,883</u>	<u>-</u>	<u>2,195</u>	<u>21,688</u>	<u>-</u>
	\$ <u>1,058,883</u>	\$ <u>-</u>	\$ <u>67,195</u>	\$ <u>991,688</u>	\$ <u>70,000</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

2017 Bonds:

<u>Description</u>	<u>Balance Dec. 31, 2016</u>	<u>New Issue</u>	<u>Principal Payment</u>	<u>Balance Dec. 31, 2017</u>	<u>Due within one year</u>
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	<u>24,832</u>	<u>-</u>	<u>949</u>	<u>23,883</u>	<u>-</u>
	\$ <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
DECEMBER 31, 2018 AND 2017

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>
2019	\$ 70,000	\$ 37,911	\$ 107,911
2020	75,000	35,365	110,365
2021	75,000	32,759	107,759
2022	80,000	29,959	119,959
2023	80,000	23,659	103,659
2024-2027	385,000	86,996	471,996
2027-2031	<u>205,000</u>	<u>13,596</u>	<u>218,596</u>
	<u>\$ 970,000</u>	<u>\$ 270,245</u>	<u>\$ 1,240,245</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 \$1,186,949 and \$1,136,685 as of December 31, 2018 and 2017, respectively. Capital lease obligations and changes for 2018 and 2017 are as follows:

	Balance December 31, 2017	Additions	Payments	Balance December 31, 2018	Due in One Year
KACO #2	\$ 83,000	\$ -	\$ 83,000	\$ -	\$ -
KACO #3	194,000	-	94,000	100,000	100,000
	<u>\$ 277,000</u>	<u>\$ -</u>	<u>\$177,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

	Balance December 31, 2016	Additions	Payments	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>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018:

<u>Year ending</u> <u>December 31, 2019</u>	<u>Lease</u> <u>Payments</u>
Total minimum lease payments	\$ 100,851
Less:	
Amount representing interest at the District's incremental borrowing rate	<u>(851)</u>
	<u>\$ 100,000</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, 2018 and 2017, 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

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, 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 the 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 employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Benefits provided (Cont'd)

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

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.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Benefits provided (Cont'd)

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

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. However, as of December 31, 2018 these legislative changes have been challenged by the Kentucky Attorney General and other stakeholders. Final determination of the plan revisions is subject to rulings by the Court and additional legislative actions by the General Assembly.

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.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Benefits provided (Cont'd)

- 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

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

At December 31, 2018, ECCWD reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by ECCWD 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 ECCWD was as follows:

ECCWD's proportionate share of the net pension liability	\$ 663,051
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The net pension liability for each plan 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, 2018. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. ECCWD'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, 2018 the District's proportion was .010887%. For the year ended December 31, 2018, the District recognized pension expense of \$72,545.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

At December 31, 2018, ECCWD 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 experience	\$ 21,627	\$ 9,706
Changes of assumptions	64,799	-
Net difference between projected and actual earnings on pension plan investments	30,832	38,783
Changes in proportion and differences between ECCWD's contributions and proportionate share of contributions	29,676	18,861
Contributions subsequent to the measurement date	42,984	-
Total	<u>\$ 189,918</u>	<u>\$ 67,350</u>

\$42,984 reported as deferred outflows of resources related to pensions resulting from ECCWD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2019	\$ 53,336
2020	\$ 32,092
2021	\$ (2,283)
2022	\$ (3,561)

Actuarial assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>
Inflation	2.3%
Projected salary increases	3.3% -11.55% (varies by service)
Investment rate of return, net of investment expense & inflation	6.25%

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Actuarial assumptions (Cont'd)

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.

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 on 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
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%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
Total	<u>100.0%</u>	

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

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.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
ECCWD's proportionate share of net pension liability:			
Non-Hazardous	\$ 834,713	\$ 663,051	\$ 519,229

Pension plan fiduciary net position

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

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB)

ECCWD's employees are provided with a OPEB plan. Retired District employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advance funded on an actuarially determined basis through the CERS plan. The Kentucky Retirement System's publicly available financial report may be obtained from <http://kyret.ky.gov/>.

CERS Other Postemployment 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. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium. Hazardous members receive a contribution subsidy for both the member and dependent coverage.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

Benefits Provided—Percentage of premium subsidies 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. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree's spouse may also receive this contribution upon the retiree's death. The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004.

Contributions—CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2017 measurement period, CERS allocated 4.70% of the 19.18% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1% of the Tier 2 and employee contributions of 6% are allocated to the health insurance plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2018, ECCWD reported a liability of \$193,279 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of ECCWD's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was 0.010886%.

The amount recognized by ECCWD as its proportionate share of the OPEB liability was \$193,279 as of December 31, 2018, and \$201,999 as of December 31, 2017. The recognition of ECCWD's liability as of December 31, 2017 is reflected as a change in accounting principle in the Statement of Activities and Note 11—Change in Accounting Principle and Related Restatement of Prior Year Amounts.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

CERS Other Postemployment Benefits (Cont'd)

For the year ended December 31, 2018, ECCWD recognized OPEB expense of \$8,322. At December 31, 2018, ECCWD reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 22,524
Changes of assumptions	38,601	0
Net difference between projected and actual earnings on OPEB plan investments	0	13,313
Changes in proportion and differences between District contributions and proportionate share of contributions	0	380
District contributions subsequent to the measurement date	13,952	0
	<u>\$ 52,553</u>	<u>\$ 36,217</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$13,952 resulting from ECCWD contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in ECCWD's OPEB expense as follows:

Year ended June 30:

2019	\$2,685
2020	\$2,685
2021	\$2,685
2022	\$5,271
2023	\$313
Thereafter	\$(644)

Actuarial assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	4% average
Inflation rate	3.25%

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

CERS Other Postemployment Benefits (Cont'd)

Healthcare cost trend rates	
Under 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years
Municipal Bond Index Rate	3.56%
Discount Rate	5.84%

Mortality rates were based on the RP-2000 Combined Mortality Table updated with Scale BB from the year 2000 to the year 2013. Pre-retirement mortality male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%. Post-retirement mortality rates for females are set back one year. The RP-2000 Disabled Mortality Table is used for post-retirement mortality using the Scale BB projected to 2025. Male mortality rates are set back four years.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2013 valuation. The investment return, price inflation, and payroll growth assumption were adopted by the Board in May and July 2017 for use with the June 30, 2017 valuation in order to reflect future economic expectations.

The long-term expected rate of return on OPEB plan investments was determined 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 class are summarized in the table below.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

CERS Other Postemployment Benefits (Cont'd)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield Credit	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	6.56%

*Long-term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan.

Discount rate – The single discount rate of 5.84% for CERS-Nonhazardous was used to measure the total OPEB liability as of June 30, 2017. The Single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2017. Future contributions are projected in accordance with the current funding policy mandated in Ky Revised Statutes 61.565, as amended, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently included in the calculation of the System’s actuarial determined contributions, but any cost associated with the implicit subsidy is not paid out of the System’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents ECCWD’s proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.84%, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84%) or 1-percentage-point higher (6.84%) than the current rate:

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

CERS Other Postemployment Benefits (Cont'd)

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	4.84%	5.84%	6.84%
ECCWD's proportionate share of net OPEB liability	\$ 251,038	\$ 193,279	\$ 144,078

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Health Care Trend Rate</u>	<u>1% Increase</u>
	6.5%	7.5%	8.5%
	decreasing to 4%	decreasing to 5%	decreasing to 6%
ECCWD's proportionate share of net OPEB liability	\$ 143,898	\$ 193,279	\$ 251,485

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

NOTE 9 - PURCHASED WATER

The District entered into a written agreement to purchase a majority of 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.

NOTE 10 – SUBSEQUENT EVENT

The district has evaluated subsequent events through May 31, 2019, the date on which these financial statements were available to be issued.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11— CHANGE IN ACCOUNTING PRINCIPLE AND RELATED RESTATEMENT OF PRIOR YEAR AMOUNTS

Effective January 1, 2018, ECCWD was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 revised 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. GASB 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB benefits as a liability to more comprehensively and comparably measure the annual costs of OPEB benefits. Cost-sharing governmental employers, such as ECCWD, are required to report a net OPEB liability, OPEB expense and OPEB-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 75 required retrospective application. The adjustment resulted in the following restatements of 2017 amounts:

	As Originally Stated	As Restated	Change
Deferred Outflows of Resources	\$ 205,871	\$ 249,825	\$ 43,954
Net OPEB Liability	\$ -	\$ 201,999	\$ 201,999
Deferred Inflows of Resources	\$ 85,669	\$ 96,245	\$ 10,576
Total Operating Expenses	\$ 1,430,762	\$ 1,599,383	\$ 168,621
Ending Net Position	\$ 8,268,695	\$ 8,100,074	\$(168,621)

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, 2018 and 2017

	2018 Budget	2018 Actual	Favorable (Unfavorable)	2017 Budget	2017 Actual	Favorable (Unfavorable)
Operating revenues:						
Water sales	\$ 1,385,000	\$ 1,363,268	\$ (21,732)	\$ 1,397,000	\$ 1,377,078	\$ (19,922)
Other operating income	45,000	46,327	1,327	45,000	51,723	6,723
Total operating revenues	1,430,000	1,409,595	(20,405)	1,442,000	1,428,801	(13,199)
Operating expenses:						
Operation and maintenance	1,100,000	1,137,827	(37,827)	1,060,000	1,246,827	(186,827)
Depreciation and amortization	350,000	333,343	16,657	350,000	331,020	18,980
Taxes	30,000	26,592	3,408	30,000	21,536	8,464
Total operating expenses	1,480,000	1,497,762	(17,762)	1,440,000	1,599,383	(159,383)
Operating income	(50,000)	(88,167)	(38,167)	2,000	(170,582)	(172,582)
Non-operating revenues (expenses):						
Non-operating revenues	-	4,075	4,075	98,000	99,594	1,594
Interest income	11,000	16,326	5,326	7,500	9,024	1,524
Sale/disposal of surplus equipment	-	3,527	3,527	-	3,210	3,210
State grants and customer connection fees	12,000	21,768	9,768	15,000	15,419	419
Interest expense	-	(49,109)	(49,109)	(57,100)	(60,948)	(3,848)
Non-operating expenses	-	(3,719)	(3,719)	(96,600)	(95,845)	755
Total non-operating revenues (expenses)	23,000	(7,132)	(30,132)	(33,200)	(29,546)	3,654
Change in net position	\$ (27,000)	\$ (95,299)	\$ (68,299)	\$ (31,200)	\$ (200,128)	\$ (168,928)

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Reporting Fiscal Year (Measurement Date) 12/31/2018 (6/30/18)	Reporting Fiscal Year (Measurement Date) 12/31/2017 (6/30/17)	Reporting Fiscal Year (Measurement Date) 12/31/2016 (6/30/16)	Reporting Fiscal Year (Measurement Date) 12/31/2015 (6/30/15)
COUNTY EMPLOYEES RETIREMENT SYSTEM:				
ECCWD's proportion of the net pension liability	0.010887%	0.010048%	0.011160%	0.010960%
ECCWD's proportionate share of the net pension liability	\$ 663,051	\$ 588,140	\$ 547,303	\$ 471,091
ECCWD's covered-employee payroll	\$ 267,268	\$ 238,770	\$ 255,169	\$ 263,636
ECCWD's proportionate share of the net pension liability as a percentage of its covered-employee payroll	248.08%	246.32%	214.49%	178.69%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	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.

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:				
Contractually required contribution	\$ 39,071	\$ 34,127	\$ 31,581	\$ 32,731
Contributions in relation to the contractually required contribution	<u>39,071</u>	<u>34,127</u>	<u>31,581</u>	<u>32,731</u>
Contribution deficiency (excess)	-	-	-	-
ECCWD's covered-employee payroll	\$ 267,268	\$ 238,770	\$ 255,169	\$ 263,636
ECCWD's contributions as a percentage of its covered-employee payroll	14.62%	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.

Note: These amounts are based on the prior year's measurement period, not ECCWD's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
FOR THE YEAR ENDED DECEMBER 31, 2018**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Changes of Benefit Terms -

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

2018: Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Reporting Fiscal Year (Measurement Date) <u>12/31/2018</u> <u>(6/30/18)</u>	Reporting Fiscal Year (Measurement Date) <u>12/31/2017</u> <u>(6/30/17)</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
ECCWD's proportion of the net OPEB liability	0.010887%	0.010048%
ECCWD's proportionate share of the net OPEB liability	\$ 193,279	\$ 201,999
ECCWD's covered-employee payroll	\$ 267,268	\$ 238,770
ECCWD's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	72.32%	84.60%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	52.40%

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

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - OPEB
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
Contractually required contribution	\$ 12,682	\$ 11,572
Contributions in relation to the contractually required contribution	<u>12,682</u>	<u>11,572</u>
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 267,268	\$ 238,770
District's contributions as a percentage of its covered-employee payroll	4.75%	4.85%

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

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
FOR THE YEAR ENDED DECEMBER 31, 2018**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Valuation Date: June 30, 2018

Changes of Benefit Terms -

2018: The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

SUPPLEMENTARY INFORMATION

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 318,219	\$ -	\$ -	\$ 318,219
Depreciation	-	-	-	333,343	333,343
Salaries	173,001	-	114,678	-	287,679
Employee benefits	148,830	-	98,656	-	247,486
Supplies	59,708	-	14,624	-	74,332
Repairs and maintenance	10,440	-	6,813	-	17,253
Outside services	4,577	-	9,010	-	13,587
Technology	-	-	2,031	-	2,031
Commissioners' salaries	-	-	30,000	-	30,000
Payroll tax expense	15,992	-	10,600	-	26,592
Professional fees	-	-	20,420	-	20,420
Utilities	21,565	-	6,636	-	28,201
Truck expense	20,749	-	1,249	-	21,998
Equipment rental	1,872	-	-	-	1,872
Insurance	-	-	32,669	-	32,669
Postage	-	-	14,121	-	14,121
Bad debts	-	-	2,751	-	2,751
Miscellaneous	-	-	9,122	-	9,122
Telephone	3,683	-	3,103	-	6,786
Dues and subscriptions	-	-	2,040	-	2,040
Loading station expense	1,081	-	-	-	1,081
Employee training and seminars	-	-	3,738	-	3,738
PSC assessment	-	-	2,867	-	2,867
Uniforms	-	-	2,769	-	2,769
Lab testing	4,229	-	-	-	4,229
Travel and meals expense	-	-	826	-	826
Capitalized overhead allocation	(8,250)	-	-	-	(8,250)
	<u>\$ 457,477</u>	<u>\$ 318,219</u>	<u>\$ 388,723</u>	<u>\$ 333,343</u>	<u>\$ 1,497,762</u>

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	228,177	-	147,315	-	375,492
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>\$ 522,246</u>	<u>\$ 328,197</u>	<u>\$ 417,920</u>	<u>\$ 331,020</u>	<u>\$ 1,599,383</u>

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

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
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PRACTICE SECTION OF THE AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

STUART K. MCCRARY, JR., CPA
THOMAS S. SPARKS, CPA
RYAN R. LASKI, CPA

SUSAN A. LACY, CPA
JUSTIN B. NICHOLS, CPA
MATTHEW T. WADE, CPA
M. SHANE SMITH, CPA
EMILY N. JACKSON, CPA

LAURENCE T. SUMMERS
1961-1992

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, 2018, 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 31, 2019.

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 31, 2019