EAST PENDLETON COUNTY
WATER DISTRICT
Falmouth, Kentucky

FINANCIAL STATEMENTS
December 31, 2018

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
East Pendleton County Water District
Falmouth, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the East Pendleton County Water District, as of December 31, 2018, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter – Implementation of New GASB Accounting Standard

As discussed in Note 10 to the financial statements, effective January 1, 2018, the District adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 19–22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
June 14, 2019

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

ASSETS	
Current assets	
Cash	$ 647,302
Customer accounts receivable, net	84,112
Inventory	19,200
Total current assets	750,614
Restricted assets	
Cash	390,888
Cash - construction	35,799
Certificates of deposit	257,826
Total restricted assets	684,513
Capital assets	
Property, plant and equipment - Water	7,377,947
Less: accumulated depreciation - Water	(3,638,910)
Property, plant and equipment - Sewer	38,351
Less: accumulated depreciation - Sewer	(29,520)
Total capital assets	3,747,868
Total assets	5,182,995
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	153,117
Deferred outflows - OPEB	53,490
Total deferred outflows of resources	206,607
Total assets and deferred outflows of resources	$ 5,389,602
LIABILITIES	
Current liabilities	
Accounts payable	$ 24,680
Accrued liabilities	10,605
Customer deposits	41,125
Accrued interest payable	8,514
Current portion of long-term debt	77,288
Total current liabilities	162,212
Noncurrent liabilities	
Net pension liability	688,996
Net OPEB liability	200,860
KIA notes payable	120,798
Bonds payable, net	875,900
Total noncurrent liabilities	1,886,554
Total liabilities	2,048,766
DEFERRED INFLOWS OF RESOURCES	
Defeasance on refunding	14,803
Deferred inflows - pension	31,272
Deferred inflows - OPEB	38,127
Total deferred inflows of resources	84,202
NET POSITION	
Net investment in capital assets	2,673,882
Restricted for debt service	416,600
Restricted for depreciation	232,114
Unrestricted	(65,962)
Total net position	3,256,634
Total liabilities, deferred inflows of resources and net position	$ 5,389,602

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

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

OPERATING INCOME	
Water sales	$ 1,133,902
Sewer sales	20,785
Other revenue	35,845
Total operating income	1,190,532
OPERATING EXPENSES	
Water purchases	227,492
Pumping	33,702
Operation	250,157
Maintenance	1,837
General and administrative	386,819
Sewer expenses	16,797
Total operating expense	916,804
Operating income before depreciation	273,728
Depreciation expense	(111,213)
OPERATING INCOME	162,515
Non-operating income (expense)	
Interest income	3,015
Interest expense	(33,243)
Total non-operating income (expense)	(30,228)
INCOME BEFORE CAPITAL CONTRIBUTIONS	132,287
Capital contributions	
Capital contributions	4,252
Tap fees	11,067
Change in net position	147,606
Net position, beginning of year as restated	3,109,028
NET POSITION, END OF YEAR	$ 3,256,634

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 1,204,116
Payments to suppliers	(461,331)
Payments for employee services and benefits	(392,390)
Net cash provided by operating activities	350,395
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Retirement of debt principal	(76,900)
Interest paid	(35,657)
Purchase of capital assets	(44,698)
Capital contributions	4,252
Tap fees	11,067
Net cash (used in) capital and related financing activities	(141,936)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment in certificates of deposit	(1,047)
Interest income	3,015
Net cash provided by investing activities	1,968
NET INCREASE IN CASH	210,427
Cash, beginning of year	863,562
CASH, END OF YEAR	$ 1,073,989
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 162,515
Noncash items included in operating income:	
Depreciation	111,213
Net change in pension liability	54,169
Net change in OPEB liability	7,627
Changes in assets and liabilities:	
(Increase) decrease in accounts receivables	13,584
(Increase) decrease in inventory	1,366
Increase (decrease) in accounts payable	3,285
Increase (decrease) in other payables	(2,119)
Increase (decrease) in customer deposits	(1,245)
Net cash provided by operating activities	$ 350,395
Supplemental disclosure of cash flow information	
Non-cash capital and related financing information:	
Amortization of defeasance on refunding	$ 673
Components of cash on the Statement of Net Position	
Cash	$ 647,302
Restricted cash	390,888
Construction	35,799
	$ 1,073,989

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

1. ORGANIZATION AND ACCOUNTING POLICIES

The East Pendleton County Water District (the District) was created and organized as a public body incorporated in Pendleton County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Pendleton County Fiscal Court to operate a water distribution system.

Reporting Entity

The East Pendleton County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

Basis of Accounting

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system in addition to customer deposits. These reserves are discussed in Note 5.

When both restricted and unrestricted resources are available for use, the District’s Board of Commissioners makes a determination as to which resource should be used first.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with an initial maturity of less than 90 days.

Accounts Receivable

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. The reserve at December 31, 2018 totaled $3,500.

Inventory

The District’s inventory is composed of chemicals, equipment and supply-type items used for routine maintenance, repairs and new water lines. The inventory is stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the asset, which ranges from 7 - 62.5 years. Land and land rights are not subject to depreciation. Interest costs during construction of capital assets are capitalized as a part of the cost.

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through June 14, 2019, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2018, have not been evaluated by the District.

2. CASH AND INVESTMENTS

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

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

The District's deposits and investments at December 31, 2018, were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

2. CASH AND INVESTMENTS (CONTINUED)

The tables presented below are designed to disclose the level of custodial credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2018. The categories of credit risk are defined as follows:

(1) Insured or collateralized with securities held by the government or by its agent in the government's name.
(2) Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name.
(3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the government's name.

The level of custodial credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2018 were as follows:

	Category			Total	Total
				Bank	Carrying
Type of Deposit	1	2	3	Amount	Amount
Cash	$ 1,075,917	$ -	$ -	$ 1,075,917	$ 1,073,989
Certificates of deposit	257,826	-	-	257,826	257,826
	$ 1,333,743	$ -	$ -	$ 1,333,743	$ 1,331,815

3. CAPITAL ASSETS

The following is a summary of capital asset activity during the year ended December 31, 2018:

	Balance 12/31/2017	**Additions**	**Disposals**	**Balance 12/31/2018**
Capital assets not depreciated:				
Organizational costs	$ 7,200	$ -	$ -	$ 7,200
Water land	16,157	-	-	16,157
Sewer land	1,168	-	-	1,168
Totals	24,525	-	-	24,525
Capital assets being depreciated:				
Water property and equipment	7,313,291	41,299	-	7,354,590
Sewer property and equipment	33,784	3,399	-	37,183
Totals	7,347,075	44,698	-	7,391,773
Less: accumulated depreciation	3,557,217	111,213	-	3,668,430
Depreciable assets, net	3,789,858	(66,515)	-	3,723,343
Total capital assets, net	$ 3,814,383	$ (66,515)	$ -	$ 3,747,868

Depreciation expense totaled $111,213 for the year ended December 31, 2018.

4. LONG-TERM DEBT

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, 2018:

Bonds and Notes	
USDA, Rural Development Bond - $195,000, dated 2/22/07 with payments through 2042, bearing interest at a rate of 4.125%.	$ 162,600
USDA, Rural Development Bond - $100,000, dated 2/22/07 with payments through 2044, bearing interest at a rate of 4.125%.	83,600
Kentucky Infrastructure Authority Loan - $160,000 dated 6/1/14 with payments through 2033, bearing interest at a rate of 2.75%.	127,786
Kentucky Rural Water Finance Corp. Bond - $895,000, dated 2/19/15 with payments through 2041, bearing interest at 2.25 – 3.625%.	700,000
Totals	1,073,986
Less: current portion of debt	(77,288)
Long-term debt	$ 996,698

The annual requirements to amortize all bonds and notes outstanding as of December 31, 2018 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2019	$ 77,288	$ 34,279	$ 111,567
2020	82,781	32,348	115,129
2021	83,080	30,443	113,523
2022	88,584	27,992	116,576
2023	84,095	25,072	109,167
2024-2028	257,831	91,216	349,047
2029-2033	142,427	64,392	206,819
2034-2038	129,300	39,664	168,964
2039-2043	112,100	14,859	126,959
2044	16,500	709	17,209
	$ 1,073,986	$ 360,974	$ 1,434,960

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2018:

	December 31, 2017	Additions	Retirements	December 31, 2018	Due Within One Year
Net pension liability	$ 650,244	$ 38,752	$ -	$ 688,996	$ -
Net OPEB liability	223,329	-	(22,469)	200,860	-
Long-term debt	1,150,886	-	(76,900)	1,073,986	77,288
Total	$ 2,024,459	$ 38,752	$ (99,369)	$ 1,963,842	$ 77,288

5. COMPLIANCE WITH BOND RESOLUTIONS

The bond resolutions require the District to maintain certain reserves as follows:

Reserve Fund – This reserve is to receive a monthly transfer of $483 until a balance of $58,000 is accumulated for all bond issues. In addition, this reserve is to receive all proceeds collected from potential customers to aid construction of extensions and any insurance proceeds from property damage. Funds may be used only for the purpose of paying the cost of unusual or extraordinary maintenance and repairs not included in the budget and cost of constructing extensions or improvements to the system. The Reserve Fund balance totaled $230,114 at December 31, 2018.

Maintenance and Replacement Reserve – This reserve is to receive an amount equal to ten percent of the amount of loan payments until the amount on deposit is equal to five percent of the original principal amount of the loan. Funds may be used for extraordinary maintenance expenses related to the water tank painting project or for the costs of replacing worn or obsolete portions of the project. At December 31, 2018 the required balance in this reserve was $1,600, and the Maintenance and Replacement Reserve totaled $2,000.

Bond and Interest Sinking Fund – This reserve is to receive a monthly transfer of 1/12 of the next interest due and 1/12 of the next principal due. In addition, this reserve is to receive any excess revenues at the close of each year after provision of anticipated operating expenses for a two-month period. This reserve can only be used to pay debt service on the bond issues. The Bond and Interest Sinking Fund balance totaled $416,600 at December 31, 2018.

6. LEASE COMMITMENTS

The District leases office equipment under a non-cancellable operating lease agreement. Rental expense for the year ended December 31, 2018 was $1,568. Future minimum lease payments including applicable taxes and fees for operating leases at December 31, 2018 are as follows:

Year Ending December 31,	
2019	$ 1,559
2020	1,559
2021	1,559
2022	390
	$ 5,067

7. RETIREMENT PLAN

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

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

7. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended December 31, 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2018, participating employers contributed 19.18% through June 30th and 21.48% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 8. Plan members contributed 14.48% to the pension trust though June 30th and 16.22%, thereafter for non-hazardous job classifications the year ended December 31, 2018. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

The District contributed $58,656 for the year ended December 31, 2018, or 100% of the required contribution. The contribution was allocated $44,288 to the CERS pension fund and $14,368 to the CERS insurance fund.

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

7. RETIREMENT PLAN (CONTINUED)

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

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2018, the District reported a liability of $688,996 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and was rolled forward using generally accepted actuarial procedures. The District proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the District's proportion was .011313 percent, which was an increase of .000204 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the District recognized pension expense of $98,691. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 22,473	$ 10,085
Changes of assumptions	67,335	-
Net difference between projected and actual earnings on Plan investments	-	8,261
Changes in proportion and differences between District contributions and proportionate share of contributions	38,525	12,926
District contributions subsequent to the measurement date	24,784	-
Total	$ 153,117	$ 31,272

The $24,784 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2018	$ 66,418
2019	$ 41,012
2020	$ (6,672)
2021	$ (3,697)

7. RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

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

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

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

7. RETIREMENT PLAN (CONTINUED)

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

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.25%	$ 867,375
Current discount rate	6.25%	$ 688,996
1% increase	7.25%	$ 539,546

Payable to the Pension Plan – At December 31, 2018, the District reported a payable of $6,332 for the outstanding amount of contributions to the pension plan required for the year ended. The payable includes both the pension and insurance contribution allocation.

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

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2018, the employer's contribution was 4.70% through June 30th and 5.26% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2018, the District contributed $14,368, or 100% of the required contribution for non-hazardous job classifications.

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

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

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

Tier 1	Participation date	Before July 1, 2003
	Insurance eligibility	10 years of service credit required
	Benefit	Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date	Before September 1, 2008 but after July 1, 2003
	Insurance eligibility	10 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date	After September 1, 2008 and before December 31, 2013
	Insurance eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date	After December 31, 2013
	Insurance eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2018, the District reported a liability for its proportionate share of the net OPEB liability of $200,860. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2018 was .011313 percent, which was an increase of .000204 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, the District recognized OPEB expense of $25,923. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ -	$ 23,408
Changes of assumptions	40,115	464
Net difference between projected and actual earnings on Plan investments	-	13,835
Changes in proportion and differences between District contributions and proportionate share of contributions	2,098	420
District contributions subsequent to the measurement date	11,277	-
Total	$ 53,490	$ 38,127

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

The $11,277 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. This includes an adjustment of $3,240 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending June 30,		
2019	$	1,013
2020	$	1,013
2021	$	1,013
2022	$	3,700
2023	$	(1,449)
2024	$	(1,204)

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:

Non-hazardous	
Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post – 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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

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

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

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

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

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

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

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

	Discount rate	Proportionate share of net OPEB liability
1% decrease	4.85%	$ 260,885
Current discount rate	5.85%	$ 200,860
1% increase	6.85%	$ 149,730

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

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

	Proportionate share of net OPEB liability
1% decrease	$ 149,542
Current trend rate	$ 200,860
1% increase	$ 261,349

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

9. RISK MANAGEMENT

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

10. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 75

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

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

Net position, at beginning of year	$ 3,286,898
Beginning net OPEB liability	(177,870)
Net position, at beginning of year, as restated	$ 3,109,028

REQUIRED SUPPLEMENTARY INFORMATION

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

	2014	2015	2016	2017	2018
District's proportion of the net pension liability	0.012943%	0.012205%	0.009370%	0.011109%	0.011313%
District's proportionate share of the net pension liability (asset)	$ 420,000	$ 524,772	$ 461,342	$ 650,244	$ 688,996
District's covered employee payroll	$ 296,939	$ 271,260	$ 209,696	$ 270,478	$ 280,393
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	139.36%	193.46%	220.01%	240.41%	245.73%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%

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

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

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

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

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

	2013	2014	2015	2016	2017
Contractually required employer contribution	$ 36,629	$ 40,040	$ 30,001	$ 28,028	$ 41,414
Contributions relative to contractually required employer contribution	36,629	40,040	30,001	28,028	41,414
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 295,298	$ 301,368	$ 239,531	$ 210,496	$ 292,976
Employer contributions as a percentage of covered-employee payroll	12.40%	13.29%	12.52%	13.32%	14.14%

	2018
Contractually required employer contribution	$ 44,288
Contributions relative to contractually required employer contribution	44,288
Contribution deficiency (excess)	$ -
District's covered employee payroll	$ 287,497
Employer contributions as a percentage of covered-employee payroll	15.40%

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

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

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

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

	2016	**2017**	**2018**
District's proportion of the net OPEB liability	0.011109%	0.011109%	0.011313%
District's proportionate share of the net OPEB liability (asset)	$ 175,173	$ 223,329	$ 200,860
District's covered employee payroll	$ 209,696	$ 270,478	$ 280,393
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	83.54%	82.57%	71.64%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%

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

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

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

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

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

	2013	2014	2015	2016	2017
Contractually required employer contribution	$ 20,114	$ 15,008	$ 11,577	$ 10,310	$ 14,042
Contributions relative to contractually required employer contribution	20,114	15,008	11,577	10,310	14,042
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 295,298	$ 301,368	$ 239,531	$ 210,496	$ 292,976
Employer contributions as a percentage of covered-employee payroll	6.81%	4.98%	4.83%	4.90%	4.79%

	2018
Contractually required employer contribution	$ 14,368
Contributions relative to contractually required employer contribution	14,368
Contribution deficiency (excess)	$ -
District's covered employee payroll	$ 287,497
Employer contributions as a percentage of covered-employee payroll	5.00%

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

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

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

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

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

The Board of Commissioners
East Pendleton County Water District
Falmouth, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the East Pendleton County Water District (the District), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 14, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2018-001).

Compliance and Other Matters

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

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East Pendleton County Water District's Response to Findings

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

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
June 14, 2019

FINDING 2018-001 (recurring)

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

Condition:
Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements.

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

Effect:
The auditor prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

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

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