

MORGAN COUNTY WATER DISTRICT
AUDIT OF FINANCIAL STATEMENTS

For The Years Ended
December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Morgan County Water District
West Liberty, Kentucky

Report on the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

Change in Accounting Principle

As described in Note O to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

To the Board of Directors
Morgan County Water District
West Liberty, Kentucky

Opinion

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 Morgan County Water District, as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of the District's Contributions listed in the table of contents 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's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2019, on our consideration of Morgan County Water 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 preformed in accordance with *Government Auditing Standards* in considering Morgan County Water District's internal control over financial reporting and compliance.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky
June 10, 2019

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash - Unrestricted	\$ 3,179	\$ 24,414
Cash - Restricted	168,040	171,352
Accounts Receivable	109,430	109,430
Unbilled Receivables	59,672	67,635
Allowance for Doubtful Accts.	(13,595)	(13,595)
Prepaid Insurance	<u>7,412</u>	<u>7,412</u>
Total Current Assets	334,138	366,648
NONCURRENT ASSETS		
Prepaid Capital Lease		
(Net of Accumulated Amortization of \$29,935 and \$25,658)	393,429	397,706
Cash - Restricted	<u>41,115</u>	<u>40,460</u>
Total Noncurrent Assets	434,544	438,166
PROPERTY AND EQUIPMENT		
Construction in Progress		146,311
Water Lines	22,525,857	21,795,865
Accum. Depr. Water Lines	(5,729,181)	(5,287,919)
Office Equipment	1,099	1,099
Accum. Depr. Office Equipment	(1,099)	(1,099)
Equipment and Vehicles	512,748	457,603
Accum. Depr. Equipment and Vehicles	(336,367)	(387,671)
Land	<u>71,076</u>	<u>66,176</u>
Total Property and Equipment	<u>17,044,133</u>	<u>16,790,365</u>
TOTAL ASSETS	17,812,815	17,595,179
DEFERRED OUTFLOWS OF RESOURCES		
Pension Liabilities	108,826	122,838
OPEB Liabilities	36,350	33,700

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accrued Interest	75,296	75,296
Accrued Expenses	126,950	121,398
Accrued Salaries	3,000	3,000
Accounts Payable-Water Purchases	35,508	16,378
Accounts Payable-Construction		84,653
Accounts Payable-Retirement	3,197	2,841
Lease Payable	27,985	
Bonds Payable	<u>93,120</u>	<u>81,220</u>
Total Current Liabilities	365,056	384,786
LONG-TERM LIABILITIES		
Compensated Absences	10,953	10,953
Net Pension Liability	443,801	399,488
OPEB Liability	129,361	137,206
Lease Payable	83,938	
Bonds Payable	<u>3,581,890</u>	<u>3,675,010</u>
	4,249,943	4,222,657
OTHER LIABILITIES		
Customer Deposits	<u>18,450</u>	<u>15,901</u>
TOTAL LIABILITIES	4,633,449	4,623,344
DEFERRED INFLOWS OF RESOURCES		
Refunding Bond Premium		
(Net of Accumulated Amortization of \$6,252 and \$4,168)	45,849	47,933
Pension Liabilities	34,203	32,573
OPEB Liabilities	24,542	7,184
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions		10,280
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	13,604,780	13,299,255
Restricted for Debt Service	168,040	171,352
Restricted for Depreciation Reserve	20,229	20,213
Restricted for Construction	878	878
Unrestricted	<u>(573,979)</u>	<u>(461,295)</u>
TOTAL NET POSITION (Restated)	<u>\$ 13,219,948</u>	<u>\$ 13,030,403</u>

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
For The Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Water Collection	\$ 1,410,077	\$ 1,396,432
Sales Tax	(2,909)	(2,521)
Utility And Local Tax	(43,405)	(39,634)
State Reimb. Relocation Projects	32,687	58,287
Tap-On Fees	29,169	36,337
Miscellaneous	25,038	32,411
Net Operating Revenues	1,450,657	1,481,312
OPERATING EXPENSES		
Advertising	530	905
Bank Charges	430	536
Depreciation	489,737	463,435
Fuel	16,139	11,038
Insurance	54,730	47,746
Miscellaneous	8,014	5,988
Office Supplies	9,967	5,591
Outside Services	33,810	20,092
Payroll Taxes	14,409	12,434
Postage	10,050	12,098
Relocation Project Expenses	34,090	59,147
Repairs & Maintenance	2,094	6,733
Retirement	76,647	30,762
OPEB	17,574	
Salaries	188,353	169,387
Supplies & Testing	78,133	65,695
Travel	842	815
Uniforms	176	1,228
Unemployment Insurance	167	
Utilities and Telephone	41,901	40,656
Water Purchased	787,445	730,827
Worker's Compensation	4,981	4,745
Total Operating Expenses	1,870,219	1,689,858
NET OPERATING INCOME	(419,562)	(208,546)

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
For The Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
NON OPERATING REVENUES (EXPENSES)		
Interest and Amortization Expense	(151,042)	(161,338)
Interest Income	101	93
Reimbursement of Interest Overpayment	51,229	
Gain on Sale of Fixed Asset	40,486	
Grant Proceeds	<u>668,333</u>	<u>6,707</u>
Total Non Operating Revenues (Expenses)	<u>609,107</u>	<u>(154,538)</u>
Change in Net Position	189,545	(363,084)
Total Net Position - Beginning (Restated)	<u>13,030,403</u>	<u>13,393,487</u>
Total Net Position - Ending	<u><u>\$ 13,219,948</u></u>	<u><u>\$ 13,030,403</u></u>

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from Customers	\$ 1,447,209	\$ 1,372,548
State Reimb. Relocation Projects	32,687	58,287
Miscellaneous Income	25,038	32,411
Payments to Vendors	(1,228,942)	(927,372)
Payments for Payroll and Related Expenses	<u>(200,931)</u>	<u>(179,956)</u>
Net Cash Provided/(Used) by Operating Activities:	75,061	355,918
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net (Deposits)/Withdrawals Customer Deposit Account	(638)	397
Net Customer Deposits (Returned)/Collected	<u>2,549</u>	<u>(518)</u>
Net Cash Provided/(Used) by Noncapital Financing Activities	1,911	(121)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest and Amortization	(97,622)	(133,874)
Net (Deposits)/Withdrawals into or from Bond Sinking Fund	3,312	(65,581)
Net (Deposits)/Withdrawals into or from Dep. Reserve Fund	(16)	91
Grant Proceeds	668,333	6,707
Constructed Fixed Assets	(583,680)	(91,361)
Purchase of Fixed Assets	(161,338)	
Proceeds from Sale of Assets	42,000	
Increase in Lease Payable	111,923	
Reduction in Bonds Payable	<u>(81,220)</u>	<u>(43,860)</u>
Net Cash Provided/(Used) by Capital and Related Financing Activities	(98,308)	(327,878)

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest	<u>101</u>	<u>93</u>
Net Cash Provided/(Used) by Investing Activities	<u>101</u>	<u>93</u>
INCREASE/(DECREASE) IN CASH	(21,235)	28,012
CASH AT BEGINNING OF YEAR	<u>24,414</u>	<u>(3,598)</u>
CASH AT END OF YEAR	<u><u>\$ 3,179</u></u>	<u><u>\$ 24,414</u></u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income	\$ (419,562)	\$ (208,546)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	489,737	463,435
Changes in Assets/Liabilities:		
Accounts Payable Retirement	355	
Accounts Receivable	7,963	(18,066)
Accounts Payable - Construction	(84,653)	84,653
Net OBEB Liability	(7,845)	
Net Pension Liability	44,313	
Deferred Outflows	11,363	
Deferred Inflows	8,708	
Accrued Expenses		44,441
Accounts Payable	4,079	
Accounts Payable - Water Purchases	19,130	(11,864)
Payroll Tax Liability	<u>1,473</u>	<u>1,865</u>
Net Cash Provided/Used by Operating Activities	<u><u>\$ 75,061</u></u>	<u><u>\$ 355,918</u></u>
<u>Supplementary Information</u>	<u>2018</u>	<u>2017</u>
Interest Paid	\$ 148,849	\$ 133,874
Accrued Interest		25,271
Amortization of Bond Premium	(2,084)	(2,084)
Total Interest Charged to Expense	<u><u>\$ 146,765</u></u>	<u><u>\$ 157,061</u></u>

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

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Morgan County Water District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Organization & Activity

The Morgan County Water District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in February 1992. The purpose of the District is to provide water service to residents of Morgan County.

Financial Reporting Entity

The District complies with GASB Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations Are Component Units." These Statements establish standards for defining and reporting on the financial reporting entity. They define component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not considered a component unit of any other governmental unit for financial reporting purposes.

The District considered all potential component units in determining what organizations should be included in its financial statements. Based on an evaluation of the established criteria, management determined that there were no component units to include in the District's financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements provide information about the District's business-type activities. The financial statements for the business-type activities are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transaction and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting," refers to when transactions or events are recorded regardless of measurement focus applied.

Because of the "businesslike" characteristics of the District's operations, the accompanying financial statements report the economic resources measurement focus and the accrual basis of accounting. The accounting objective of the "economic resources" measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District utilizes an enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

As the means for delivering services to its customers, the District utilizes an office building, infrastructure, office equipment, equipment and vehicles. To provide the resources that are necessary to pay for water services and the related support functions, the District charges its customers monthly user fees, which are based on the specific level of services that they are receiving. Because the operations of the District closely mirror those of a typical, commercial company, its accounting records reflect a similar approach for measuring its business activity.

The District's various bond resolutions or ordinances require the establishment of certain accounts, which are referred to as "funds." These required accounts are maintained as part of accounting records of the Water Fund. They include the Sinking Fund (Debt Service), Revenue Fund and Depreciation Reserve Fund (Repairs and Maintenance). These are not "funds" as the term is used in generally accepted accounting principles, but are separate "accounts" used to delineate the accounting and reporting for bond related money and repayment security requirements. The balances and activity that occur in these various accounts represent specific segments of the Water Utility enterprise fund as reported in the District's financial statements.

The enterprise fund used by the District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

Budgeting

The District prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. Project-length budgets, which generally encompass more than one fiscal year, are also prepared for major construction projects. Both the operating and project-length expenditure plans are prepared on the cash basis of accounting, which significantly differs from the accrual basis of accounting that the District uses in the preparation of its financial statements.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgeting (Continued)

These managerial budgets that are prepared for operations each year or at the inception of a major construction project are not adopted by the Board as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 30+ days delinquent at year-end. Bills are due by the tenth of each month. It is the policy of the District to shut off water service thirty days from the billing date. Customer deposits held are applied to outstanding bills.

Accounts and Unbilled Receivables

Accounts receivable are stated at face amount. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed December 23 is for customer usage from approximately November 16 through December 15. The entire amount is considered accounts receivable as of December 31. The billing mailed on January 26 of the subsequent year is for usage from approximately December 16 through January 15. Fifty percent of this billing is considered unbilled receivables at December 31.

Deposits 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 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).

Property, Plant and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water distribution systems, sewer collection systems and similar items) are reported as a component of noncurrent assets in the basic financial statement. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (Continued)

Depreciation is charged as an expense against operations. Capital assets of the District are depreciated using the straight-line method over their estimated useful lives in years as set forth as follows.

<u>Category</u>	<u>Life in years</u>
Buildings	10-75
Equipment and Vehicles	3-25
Water Lines	10-50
Office Equipment	3-25

The depreciation expense provided on proprietary fund assets during the years ended December 31, 2018 and 2017 are \$489,737 and \$463,453, respectively.

Capitalized Interest on Indebtedness

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. The total interest expense incurred by the District during the current fiscal year was \$146,765. Of this year's amount, \$0 was considered to be capitalized interest.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of unrestricted cash on hand, demand and savings deposits, certificates of deposit, and bank overdrafts.

Inventory and Prepaid Items

The District does not maintain an inventory of supplies. Supplies are purchased as needed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

Restricted Net Position

Some of the District's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation.

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "debt service" accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The "depreciation reserve" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements and extensions.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Tax

The District is exempt from federal income tax.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2018, these requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

NOTE C - RESTRICTIONS ON CASH

Bond Sinking Funds

Deposits into Bond Sinking Funds are required to be made monthly in order to accumulate funds for payment of bond principle and interest. At December 31, 2017, \$156,516 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2018. The balance in this account at December 31, 2018 was \$168,040.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit \$672 per month into the account. The District had \$20,230 on deposit in this account for the purpose of maintaining the water system at December 31, 2018.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE C - RESTRICTIONS ON CASH (Continued)

Restricted Cash Accounts

The District is required to maintain special deposit accounts for customer deposits, construction projects, and long-term debt obligations. The following is a listing of restricted cash accounts of the District at December 31, 2018:

	2018	2017
Customer Deposit Accounts	\$ 20,006	\$ 19,369
Bond and Interest Sinking Fund	168,040	171,352
Depreciation Reserve Fund	20,230	20,213
Construction Account	879	878
	<hr/>	<hr/>
Total Restricted Cash Accounts	\$ 209,155	\$ 211,812
	<hr/>	<hr/>

NOTE D - CAPITAL LEASES

The District has entered into two lease agreements as lessee with the Morgan County Fiscal Court for the use of 2,500 square feet of office space at 1009 Hwy 172, West Liberty, Kentucky 41472 and 2,500 square feet of office and storage space at 150 County Garage Road, West Liberty, Kentucky 41472. The lease agreements qualify as capital leases for accounting purposes (the terms of the leases are equal to seventy-five percent or more of the estimated economic life of the leased properties). The terms of the leases are ninety-nine years. In 2012, the District prepaid \$423,364 in full payment of all future lease payments. Amortization expense for each of the fiscal years ended December 31, 2018 and 2017 was \$4,276.

NOTE E - BOND PREMIUM

On November 30, 2016, the District entered into an assistance agreement with Kentucky Rural Water Association to refund six Rural Development bonds. (See Note H). The bond premium of \$52,101, a result of the refunding, will be amortized over the 25-year term of the bond at \$2,084 per year. At December 31, 2018 and 2017, the bond premium, net of accumulated amortization of \$6,252 and \$4,168, is \$45,849 and \$47,933, respectively and is classified as a deferred inflow.

NOTE F - FAIR VALUE MEASUREMENT

GASB Statement No. 72, Fair Value Measurement and Application requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents and accounts receivable.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE G - PROPERTY, PLANT AND EQUIPMENT

The District's property, plant and equipment consist of the following:

	December 31, 2017 Beginning Balance	Increases	Decreases	December 31, 2018 Ending Balance
Primary Government:				
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 66,176	\$ 4,900	\$	\$ 71,076
Construction In Progress	146,312	583,680	(729,992)	
Total Capital Assets Not Being Depreciated	212,488	588,580	(729,992)	71,076
Capital Assets, Being Depreciated:				
Office Equipment	1,099			1,099
Vehicles and Equipment	457,603	156,438	(101,293)	512,748
Waterlines	21,795,865	729,992		22,525,857
Total Capital Assets Being Depreciated	22,254,567	886,430	(101,293)	23,039,704
Less Accumulated Depreciation for:				
Office Equipment	(1,099)			(1,099)
Vehicles and Equipment	(387,671)	(48,475)	99,779	(336,367)
Waterlines	(5,287,919)	(441,262)		(5,729,181)
Total Accumulated Depreciation	(5,676,689)	(489,737)	99,779	(6,066,647)
Total Capital Assets, Being Depreciated, Net	16,577,878	396,693	(1,514)	16,973,057
Business-Type Activities Capital Assets, Net	<u>\$ 16,790,366</u>	<u>\$ 985,273</u>	<u>\$ (731,506)</u>	<u>\$ 17,044,133</u>

NOTE H - BONDS PAYABLE

The following is a summary of the long-term debt transactions of the Morgan County Water District for the years ended December 31, 2018 and 2017:

<u>Water Utility Fund Revenue Bonds</u>	2018	2017
Bonds Payable - Beginning	\$ 3,756,230	\$ 3,800,090
Bonds Retired	(81,220)	(43,860)
Bonds Payable - Ending	<u>\$ 3,675,010</u>	<u>\$ 3,756,230</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE H - BONDS PAYABLE (CONTINUED)

Bonds payable at December 31, 2018 consists of the following issues:

\$332,000 Water revenue bonds, Series 2001, maturing through January 1, 2040, with interest at 3.25 percent	\$ 238,500
\$1,000,000 Water revenue bonds, Series 2006, maturing through January 1, 2045, with interest at 4.125 percent	847,000
\$1,446,000 Water revenue bonds, Series 2008, maturing through January 1, 2048, with interest at 4.125 percent	1,294,510
\$1,330,000 KRWFC revenue bonds, Series 2016 D, maturing through January 1, 2042 with interest varied from 3.5% - 5%	<u>1,295,000</u>
Total	<u>\$ 3,675,010</u>

Bond Collateralization Requirements

According to Bond documents, the Bonds shall be payable solely out of the gross revenues of the System. In addition to the revenue pledge securing the Bonds, a lien is created and granted in favor of the Bond owners on all contracts and on all other rights of the District pertaining to the System.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at December 31, 2018, required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash.

Bond Refunding

On November 30, 2016, the District entered an assistance agreement with Kentucky Rural Water Finance Corporation in the amount of \$1,330,000 for the purpose of refinancing and currently refunding certain obligations of the District in order to affect substantial debt service savings. The following bond series were refunded: Series A 1993, Series B 1993, Series 1995, Series 1999, Series 2002, and Series 2003. A bond premium of \$52,101 will be amortized over the 25-year term of the bond at \$2,084 per year. (See Note E.)

Sinking Fund Requirements

Sinking fund requirements are equal to the debt service requirements. The annual requirements to amortize all bonds as of December 31, 2018, according to the bond documents, including interest payments are as follows:

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE H - BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2001

YEAR	PRINCIPAL	INTEREST	TOTAL
2019	\$ 7,500	\$ 8,223	\$ 15,723
2020	8,000	7,979	15,979
2021	8,000	7,719	15,719
2022	8,500	7,459	15,959
2023	8,500	7,183	15,683
2024	9,000	6,906	15,906
2025	9,000	6,614	15,614
2026	9,500	6,321	15,821
2027	10,000	6,013	16,013
2028	10,000	5,688	15,688
2029	10,500	5,363	15,863
2030	11,000	5,021	16,021
2031	11,000	4,664	15,664
2032	11,500	4,306	15,806
2033	12,000	3,933	15,933
2034	12,000	3,543	15,543
2035	13,000	3,153	16,153
2036	13,000	2,730	15,730
2037	13,500	2,308	15,808
2038	14,000	1,869	15,869
2039	14,500	1,414	15,914
2040	14,500	943	15,443
	<u>\$ 238,500</u>	<u>\$ 109,352</u>	<u>\$ 347,852</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE H - BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2006

YEAR	PRINCIPAL	INTEREST	TOTAL
2019	\$ 18,000	\$ 36,300	\$ 54,300
2020	18,000	35,558	53,558
2021	19,000	34,815	53,815
2022	20,000	34,031	54,031
2023	21,000	33,206	54,206
2024	22,000	32,340	54,340
2025	22,000	31,433	53,433
2026	23,000	30,525	53,525
2027	24,000	29,576	53,576
2028	25,000	28,586	53,586
2029	26,000	27,555	53,555
2030	27,000	26,483	53,483
2031	29,000	25,369	54,369
2032	30,000	24,173	54,173
2033	31,000	22,935	53,935
2034	32,000	21,656	53,656
2035	34,000	20,336	54,336
2036	35,000	18,934	53,934
2037	36,000	17,490	53,490
2038	38,000	16,005	54,005
2039	39,000	14,438	53,438
2040	41,000	12,829	53,829
2041	43,000	11,138	54,138
2042	45,000	9,364	54,364
2043	46,000	7,508	53,508
2044	48,000	5,610	53,610
2045	55,000	3,630	58,630
	<u>\$ 847,000</u>	<u>\$ 611,823</u>	<u>\$ 1,458,823</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE H - BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2008

YEAR	PRINCIPAL	INTEREST	TOTAL
2019	\$ 22,620	\$ 55,155	\$ 77,775
2020	23,550	54,222	77,772
2021	24,520	53,250	77,770
2022	25,530	52,239	77,769
2023	26,590	51,186	77,776
2024	27,680	50,089	77,769
2025	28,820	48,947	77,767
2026	30,010	47,758	77,768
2027	31,250	46,521	77,771
2028	32,540	45,231	77,771
2029	33,880	43,889	77,769
2030	35,280	42,492	77,772
2031	36,740	41,036	77,776
2032	38,250	39,521	77,771
2033	39,830	37,943	77,773
2034	41,470	36,300	77,770
2035	43,180	34,589	77,769
2036	44,960	32,808	77,768
2037	46,820	30,954	77,774
2038	48,750	29,022	77,772
2039	50,760	27,011	77,771
2040	52,850	24,917	77,767
2041	55,030	22,737	77,767
2042	57,300	20,467	77,767
2043	59,670	18,104	77,774
2044	62,130	15,642	77,772
2045	64,690	13,080	77,770
2046	67,360	10,411	77,771
2047	70,140	7,632	77,772
2048	72,310	4,739	77,049
	<u>\$ 1,294,510</u>	<u>\$ 1,037,892</u>	<u>\$ 2,332,402</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE H - BONDS PAYABLE (CONTINUED)

KRWFC REFUNDING BOND – SERIES 2016 D

YEAR	PRINCIPAL	FEEES & INTEREST	TOTAL
2019	\$ 45,000	\$ 50,812	\$ 95,812
2020	50,000	48,912	98,912
2021	50,000	46,912	96,912
2022	50,000	44,913	94,913
2023	55,000	42,537	97,537
2024	55,000	40,062	95,062
2025	60,000	37,762	97,762
2026	60,000	35,062	95,062
2027	65,000	32,262	97,262
2028	65,000	29,662	94,662
2029	65,000	27,062	92,062
2030	70,000	24,537	94,537
2031	70,000	22,087	92,087
2032	75,000	19,550	94,550
2033	55,000	17,207	72,207
2034	60,000	15,051	75,051
2035	40,000	13,176	53,176
2036	45,000	11,582	56,582
2037	45,000	9,894	54,894
2038	45,000	8,150	53,150
2039	45,000	6,350	51,350
2040	45,000	4,550	49,550
2041	50,000	2,650	52,650
2042	30,000	600	30,600
	<u>\$ 1,295,000</u>	<u>\$ 591,342</u>	<u>\$ 1,886,342</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE H - BONDS PAYABLE (CONTINUED)

BONDS PAYABLE IN THE AGGREGATE

Year Ended December 31	Scheduled Principal	Scheduled Interest
2019	\$ 93,120	\$ 150,490
2020	99,550	146,671
2021	101,520	142,696
2022	104,030	138,642
2023	111,090	134,112
2024-2028	618,800	597,358
2029-2033	717,980	465,126
2034-2038	700,680	329,550
2039-2043	688,610	185,020
2044-2048	439,630	60,744
Totals	<u>\$ 3,675,010</u>	<u>\$ 2,350,409</u>

NOTE I - LEASES

- A. On November 17, 2017, the District entered a lease agreement for a 2017 Ford F250 Regular Cab with Enterprise FM Trust in the amount of \$27,911. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$699 includes initial charges with the monthly payments of \$461 continuing thereafter. The balance of the lease at December 31, 2018 was \$22,139. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Lease Payments
2019	\$ 5,995
2020	5,534
2021	5,534
2022	<u>5,076</u>
Totals	<u>\$ 22,139</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE I – LEASES (Continued)

- B.** On November 28, 2017, the District entered a lease agreement for a 2017 Ford F350 Super Cab with Enterprise FM Trust in the amount of \$338,839. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$733 includes initial charges with the monthly payments of \$646 continuing thereafter. The balance of the lease at December 31, 2018 was \$30,906. Lease payments for the remaining years are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Scheduled</u> <u>Lease Payments</u>
2019	\$ 8,396
2020	7,750
2021	7,750
2022	<u>7,010</u>
Totals	<u>\$ 30,906</u>

- C.** On April 5, 2018, the District entered a lease agreement for a 2018 Ford F150 Regular Cab with Enterprise FM Trust in the amount of \$28,554. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$876 includes initial charges with the monthly payments of \$469 continuing thereafter. The balance of the lease at December 31, 2018 was \$24,863. Lease payments for the remaining years are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Scheduled</u> <u>Lease Payments</u>
2019	\$ 6,098
2020	5,629
2021	5,629
2022	5,629
2023	<u>1,878</u>
Totals	<u>\$ 24,863</u>

- D.** On October 31, 2018, the District entered a lease agreement for a 2018 Ford F150 Super Cab with Enterprise FM Trust in the amount of \$34,633. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$618 includes initial charges with the monthly payments of \$577 continuing thereafter. The balance of the lease at December 31, 2018 was \$34,015. Lease payments for the remaining years are as follows:

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE I – LEASES (Continued)

D. (Continued)

Year Ended December 31	Scheduled Lease Payments
2019	\$ 7,495
2020	6,918
2021	6,918
2022	6,918
2023	5,766
Totals	\$ 34,015

E. Lease Payments in the Aggregate

Year Ended December 31	Scheduled Lease Payments
2019	\$ 27,984
2020	25,831
2021	25,831
2022	24,633
2023	7,644
Totals	\$ 111,923

NOTE J - RETIREMENT

General Information about the Pension Plan

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a cost sharing multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five (5) percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six (6) percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KRS insurance fund. The District's contribution rate for nonhazardous employees was 19.18 percent for the first six months of 2018 and 21.48 percent for the last six months of 2018.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - RETIREMENT (CONTINUED)

General Information about the Pension Plan (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were 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. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable.

The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District's contribution for calendar year 2016 was \$29,589, calendar year 2017 was \$30,762, and calendar year 2018 was \$37,682.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For member participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - RETIREMENT (CONTINUED)

General Information about the Pension Plan (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Pension Liabilities

At December 31, 2018, the District has a liability of \$433,801 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of June 30, 2018, the most recent audited information, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date by the Kentucky Retirement Systems. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the District's proportion was .00728%.

For the year ended December 31, 2018, the District recognized pension expense of \$76,647. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS		
NON-HAZARDOUS	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	\$ 14,476	\$ 6,496
Changes in Assumptions	43,372	
Investment Experience	20,637	25,958
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	17,987	1,749
District Contributions and Cash Balance Subsequent to the Measurement Date	12,354	
Total	<u>\$ 108,826</u>	<u>\$ 34,203</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - RETIREMENT (CONTINUED)

Pension Liabilities (Continued)

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

		<u>Non-Hazardous</u>
2019	\$	41,846
2020	\$	24,974
2021	\$	(2,170)
2022	\$	(2,381)
2023	\$	0
Thereafter	\$	0

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability

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

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

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

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 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 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 table below.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - RETIREMENT (CONTINUED)

Pension Liabilities (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return (Diversified Hedge Funds)	10.00%	5.00%
Real Return	10.00%	7.00%
Cash Equivalent	2.00%	1.50%
Total	100%	6.09%

Discount Rate

The projection of cash flows used to determine the discount rate of 5.25% for the CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

The following presents the net pension liability of the District, calculated using the discount rate of percent, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.25 percent) or one-percentage-point higher (7.25 percent) than the current rate for non-hazardous

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
NON-HAZARDOUS			
District's Net Pension Liability	\$ 558,699	\$ 443,801	\$ 347,536

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE J - RETIREMENT (CONTINUED)

Pension Liabilities (Continued)

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2018

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	27 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increases	4.00%, Average
Investment Rate of Return	7.50%
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 213 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale Bb to 2013) set-back for years for males) is used for the period after disability retirement.

Deferred Inflows and Outflows

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of December 31, 2018, is based on the June 30, 2018 actuarial valuation. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

401K

In January 2001, the district began a non-matching 401K deferred compensation plan. The employees may contribute twenty-five percent (25%) of their compensation, not to exceed \$10,500 annually. Participation is optional. Benefits are available upon separation of service or attainment of age fifty-nine and one-half (59.5) years. Benefits must commence by the later of: April 1 of the calendar year in which employment ends, or the calendar year in which the employee reaches age seventy and one-half (70.5) years of age.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

At December 31, 2018, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

Plan Description

Employees of the District are provided hospital and medical insurance through the Kentucky Retirement System's Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

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

For financial reporting the actuarial valuation as for June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

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

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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 213 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale Bb to 2013 (set-back for years for males) is used for the period after disability retirement.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Discount Rate

The projection of cash flows used to determine the discount rate of 5.85% for CERS non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and the municipal bond rate 3.62%, as reported in Fidelity Index's "20-Yar 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 payment associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Long-Term Expected Rate of Return

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return (Diversified Hedge Funds)	10.00%	5.00%
Real Return	10.00%	7.00%
Cash Equivalent	2.00%	1.50%
Total	100%	6.09%

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Deferred Inflows and Outflows of Resources

The deferred inflows and outflows of resources and OPEB Expense columns included in the Schedule of OPEB Amounts by Employer include only certain categories of deferred inflows of resources and deferred outflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of OPEB Amounts by Employer does not include deferred inflows/outflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net OPEB liability as of June 30, 2018 is based on the June 30, 2017 actuarial valuation rolled forward. Deferred inflows and outflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

Sensitivity of the Net OPEB to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.85%) or one percentage point higher (6.85%) follows:

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
NON-HAZARDOUS			
District's Net Pension Liability	\$ 168,020	\$ 129,361	\$ 96,432

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current healthcare cost trend rates follows:

	1% Decrease	Current Trend Rate	1% Increase
NON-HAZARDOUS			
District's Net Pension Liability	\$ 96,311	\$ 129,361	\$ 168,319

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

At December 31, 2018, the District reported a liability of \$129,361 (non-hazardous) 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 determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2017. This method is to be reflective of the employers' long-term contribution effort. At December 31, 2018, the District's proportion was 0.007286%, non-hazardous.

For the year ended December 31, 2018, the District recognized OPEB expense of \$17,574 nonhazardous. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB (Continued)

NON-HAZARDOUS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Experience	\$	\$ 15,075
Changes in Assumptions	25,835	299
Investment Experience		8,910
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	5,993	258
District Contributions and Cash Balance Subsequent to the Measurement Date	<u>4,522</u>	
Total	<u>\$ 36,350</u>	<u>\$ 24,542</u>

The \$14,319 (non-hazardous) of deferred outflows of resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:

	<u>Non-Hazardous</u>
2019	\$ 1,530
2020	\$ 1,530
2021	\$ 1,530
2022	\$ 3,621
2023	\$ (56)
Thereafter	\$ (513)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual expense are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE L - INSURANCE COVERAGE

For the fiscal years ended December 31, 2018 and 2017, the District was a member of the Kentucky Association of Counties All Lines Insurance Fund (KALF). KALF is a self- insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses. There have been no settlements that have exceeded insurance coverage for each of the past three fiscal years.

NOTE M – COMPENSATED ABSENCES

Upon termination of employment from the District, an employee who has been an employee of the District for a total of twelve months shall be compensated for a maximum of fifteen days of accrued annual leave. Employees accumulate 3.69 hours of annual leave per pay period. Employees employed less than six months upon termination will not be compensated for accrued annual leave, unless approved by the Water District Manager. Annual leave accrued as of December 31, 2018 and 2017 is \$10,953 and \$10,953, respectively.

NOTE N – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 10, 2019, which is the date the financial statements were available to be issued. Subsequent to December 31, 2018, the Public Service Commission started an investigation into the District's high rate of water loss. Results of the investigation will not be known until July 2019.

NOTE O – PRIOR PERIOD ADJUSTMENT

Net Position - Beginning for the year ending December 31, 2018 and Net Position – Ending for the year ending December 31, 2017 were decreased by \$216,443 to adjust for net pension and OPEB liabilities.

NOTE P – RELATED PARTY TRANSACTION

A contractor was paid \$9,360 during the year ending December 31, 2018 for work on water lines. The owner of the company is related to a board member.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY

For the Year Ended December 31, 2018 and 2017

	Non-Hazardous					
	<i>(Actuarial Valuation Report Year)</i>					
	2014	2015	2016	2017	2018	
District's Proportion of the Net Pension Liability (Asset)	0.006712%	0.007105%	0.006721%	0.006825%		0.007287%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 218,000	\$ 305,472	\$ 330,925	\$ 399,488		\$ 443,801
District's Covered-Employee Payroll	\$ 181,675	\$ 175,555	\$ 162,411	\$ 169,633		\$ 185,528
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	119.99%	174.00%	203.76%	235.50%		239.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	59.97%	55.50%	53.32%		53.54%

Note:

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICTS' PENSION CONTRIBUTIONS
Fiscal Year Ended December 31, 2018 and 2017

<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous			
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually Required Pension Contribution	\$ 29,088	\$ 21,212	\$ 19,095	\$ 23,180
Pension Contributions in Relation to the Contractually Required Pension Contribution	<u>29,088</u>	<u>21,212</u>	<u>19,095</u>	<u>23,180</u>
Pension Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's Covered-Employee Payroll	\$ 181,675	\$ 175,555	\$ 162,411	\$ 169,633
Pension Contributions as a Percentage of Covered-Employee Payroll	16.01%	12.08%	11.76%	13.66%
				14.10%
				\$ 26,151
				\$ 185,528

Note:

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY
For the Year Ended December 31, 2018 and 2017

	Non-Hazardous	
	2017	2018
	0.006825%	0.007826%
District's Proportion of the Net OPEB Liability (Asset)		
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 8,720	\$ 10,032
District's Covered-Employee Payroll	\$ 169,633	\$ 185,528
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	5.14%	5.41%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.39%	57.62%

Note:

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICTS' OPEB CONTRIBUTIONS
Fiscal Year Ended December 31, 2018 and 2017

	Non-Hazardous	
	2017	2018
<i>(Actuarial Valuation Report Year)</i>		
Contractually Required Pension Contribution	\$ 8,720	\$ 10,032
Pension Contributions in Relation to the Contractually Required Pension Contribution	8,720	10,032
Pension Contribution Deficiency (Excess)	\$ 0	\$ 0
District's Covered-Employee Payroll	\$ 169,633	\$ 185,528
Pension Contributions as a Percentage of Covered-Employee Payroll	5.14%	5.41%

Note:

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

MORGAN COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2018 and 2017

Note 1. Changes in Benefit Terms

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 listed below:

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

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

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

Note 2. Changes of Assumption

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

Note 3. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal years ended 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

MORGAN COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2018 and 2017

Note 3. Method and Assumptions Used in Calculations of Actuarially Determined Contributions (Continued)

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

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Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Board of Directors
Morgan County Water District
West Liberty, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Morgan 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 and have issued our report thereon dated June 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morgan 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morgan County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Morgan 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying comment and recommendation as item 2018-001 that we consider to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morgan 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*.

Morgan County Water District's Response to Findings

Morgan County Water District's response to the finding identified in our audit is described in the accompanying comment and recommendation. Morgan County Water 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.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky

June 10, 2019

**MORGAN COUNTY WATER DISTRICT
COMMENT AND RECOMMENDATION
December 31, 2018**

MATERIAL WEAKNESS

2018-001 The District Lacks Adequate Segregation of Duties

Condition: The District lacks a proper segregation of duties because the office manager receives the bank statements, prepares the bank reconciliations, signs checks, enters data into the accounting system, and prepares all financial information for the board.

Criteria: Good internal controls dictate that one employee should not control all aspects of a particular job duty. All controls should also be adequately documented.

Effect: Misappropriation of assets or an error could occur and not be detected in a timely manner.

Cause: The current design in the internal control structure does not reduce the level of risk that errors and fraud may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

Recommendation: We recommend that the District segregate these duties or implement the following compensating controls:

Someone independent of the procedures above could

- Review bank statements for unusual transactions.
- Agree checks to invoices.
- Agree bank reconciliations to bank statement and QuickBooks.

These compensating controls could also be documented by initialing source documents.

The District's Response: We, the Board, are working on measures to address this finding.