

**SANDY HOOK WATER DISTRICT**  
**AUDIT OF FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2017**

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# *Morgan and Associates, LLC*

*Brenda K. Morgan, CPA*

749 Broadway Street  
P.O. Box 428  
West Liberty, KY 41472

Phone: (606) 743-1884  
Fax: (606) 743-1895  
www.bkmorgancpa.com

## **INDEPENDENT AUDITORS' REPORT**

To the Commissioners  
Sandy Hook Water District  
Sandy Hook, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Sandy Hook Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Sandy Hook Water 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 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.

To the Commissioners  
Sandy Hook Water District  
Sandy Hook, 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 Sandy Hook Water District, as of December 31, 2017, 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.

***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 Districts' Pension 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 March 14, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky  
March 14, 2018

**SANDY HOOK WATER DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2017**

ASSETS

CURRENT ASSETS

Cash - Unrestricted	\$	97,931
Cash - Restricted		430,678
Accounts Receivable		81,350
Prepaid Expenses		7,145
		7,145

Total Current Assets 617,104

NONCURRENT ASSETS

Capital Assets - Net of Accumulated Depreciation

Land		146,998
Land Improvements		4,508
Buildings and Building Improvements		679,165
Wells and Springs		276,354
Electric Pumping Equipment		14,148
Transmission and Distribution		5,395,767
Treatment Plant		52,471
Miscellaneous Equipment		47,462
Transportation Equipment		38,714
Furniture and Fixtures		265
		265

Total Noncurrent Assets 6,655,852

TOTAL ASSETS 7,272,956

DEFERRED OUTFLOWS OF RESOURCES 121,408

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

**SANDY HOOK WATER DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2017**

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accrued Interest	31,170
Due to City of Sandy Hook	23,467
Accrued Taxes	(1,145)
Accrued Salaries	894
Unearned Revenues	2,833
Accrued Health Insurance	2,795
Accounts Payable	8,644
Bonds Payable	43,500
Loan Payable	8,047
Total Current Liabilities	120,205

LONG-TERM LIABILITIES

Bonds Payable	1,324,482
Loan Payable	26,101
Compensated Absences	6,319
Total Long-Term Liabilities	1,356,902

OTHER LIABILITIES

Net Pension Liabilities	355,536
Customer Deposits	26,389
Total Other Liabilities	381,925

TOTAL LIABILITIES 1,859,032

DEFERRED INFLOWS OF RESOURCES 3,455

NET POSITION

Invested in Capital Assets, Net of Related Debt	5,253,722
Restricted for:	
Debt Service	183,580
Depreciation Reserve	138,510
Sewer Collections	23,467
Unrestricted	(67,402)
TOTAL NET POSITION	5,531,877
TOTAL LIABILITIES AND NET POSITION	\$ 7,394,364

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

**SANDY HOOK WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSTION**  
**For The Year Ended December 31, 2017**

OPERATING REVENUES

Water Sales	\$	706,372
Service Revenues		22,115
Miscellaneous Revenues		<u>16,085</u>
 Total Operating Revenues		 744,572

OPERATING EXPENSES

Water Expenses		
Advertising		66
Depreciation		206,747
Dues and Subscriptions		2,857
Legal and Accounting Services		11,010
Miscellaneous		11,184
Office Supplies		2,880
Payroll Taxes		14,051
Postage and Freight		6,668
Professional Services		2,360
Insurance		38,976
Workers Comp		4,297
Repairs and Maintenance		52,256
Retirement		59,610
Salaries and Wages		206,940
Supplies and Testing		12,107
Taxes and Licenses		1,927
Telephone and Utilities		56,578
Travel and Automobile		<u>12,360</u>
 Total Operating Expenses		 <u>702,874</u>

NET OPERATING INCOME (LOSS)		41,698
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The accompanying notes are an integral part of the financial statements.

**SANDY HOOKWATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**For The Year Ended December 31, 2017**

NON OPERATING REVENUES (EXPENSES)

Loss on Sales	(537)
Interest Expense	(59,758)
Interest Income	<u>940</u>
Total Non Operating Revenues (Expenses)	<u>(59,355)</u>
Net Change in Net Position	(17,657)
Net Position - Beginning	<u>5,549,534</u>
Total Net Position - Ending	<u><u>\$ 5,531,877</u></u>

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



**SANDY HOOK WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Payments from Customers	\$ 725,570
Payments for Sewer Collection Fees	9,600
Payments to Vendors	(196,159)
Payments for Payroll and Related Expenses	<u>(287,910)</u>
 Net Cash Provided (Used) by Operating Activities	 251,101

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Loan Proceeds	35,548
Capital Asset Additons	(52,958)
Interest Paid on Debt	(59,758)
Payments on Capital Debt	<u>(87,916)</u>
 Net Cash Provided (Used) by Capital and Related Financing Activities	 (165,084)

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest	<u>940</u>
 Net Cash Provided (Used) by Investing Activities	 <u>940</u>

INCREASE (DECREASE) IN CASH	86,957
 CASH AT BEGINNING OF YEAR	 <u>441,652</u>
 CASH AT END OF YEAR	 <u><u>\$ 528,609</u></u>

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

**SANDY HOOK WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2017**

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

Net Operating Income	\$ 41,698
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	206,747
Changes in Assets/Liabilities:	
Accounts Receivable	(8,824)
Accounts Payable	(9,557)
Accrued Taxes	1,059
Accrued Retirement	(4,474)
Accrued Health Insurance	2,795
Accrued Payroll Taxes	(1,792)
Due to City of Sandy Hook	1,779
Customer Deposits	(578)
Deferred Inflows	3,455
Deferred Outflows	18,793
	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ 251,101
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Supplementary Information

Interest Expensed	\$ 59,758
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The accompanying notes are an integral part of the financial statements.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Sandy Hook 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 District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in 1957. The purpose of the District is to provide water services to residents in Sandy Hook, Kentucky and the surrounding area.

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 District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America.

All activities of the District are accounted for within a single proprietary (enterprise reporting) entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Net Position is segregated into “invested in capital assets, net of related debt;” “restricted;” and “unrestricted” components.

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

In accordance with Kentucky Revised Statute 65.065, the District is required to submit a balanced budget to the Elliott County Fiscal Court prior to December 1. The budget includes proposed expenditures and means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at calendar year end.

Allowance for Doubtful Accounts

No allowance for doubtful accounts has been established. The District considers all receivables to be fully collectible based on their strict cut-off policy. If amounts become uncollectible, the amounts due are offset by any customer deposit held and the balance charged to operations when that determination is made.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Accounts Receivables

Accounts receivables are stated at face amount and include billed and unbilled receivables due as of December 31, 2017. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 28, 2017 was for customer usage from approximately November 26 through December 25, 2017. The entire amount is considered accounts receivable as of December 31, 2017. The billing mailed on January 27, 2018 was for usage from approximately December 26, 2017 through January 25, 2018. Approximately five days of this billing is considered unbilled receivables at December 31, 2017.

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, and similar items, are reported as a component of noncurrent assets in the basic financial statements. 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.

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.

The depreciation expense provided on proprietary fund assets during the period ended December 31, 2017 is \$206,747.

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. There was no capitalized interest in 2017.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

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

Inventory and Prepaid Items

The District maintains an inventory of supplies to make minor repairs to the water district systems. It is the policy of the water district to expense the items as they are purchased.

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.

The District collects sewer revenues on behalf of the City of Sandy Hook. The amount owed to the City of Sandy Hook as of December 31, 2017 is reported as a component of restricted net position. The amount owed the City of Sandy Hook includes current collections due and unearned sewer revenues.

Federal Income Tax

The District is exempt from federal income tax since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

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.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE B – RESTRICTIONS ON CASH**

Bond Sinking Fund

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, \$99,714 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2017. The balance in this account at December 31, 2017 was \$183,580.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit \$2,760 per month into the account. At December 31, 2017, \$73,890 was the required balance of the Depreciation Reserve account. The District had \$138,510 in this account for the purpose of maintaining the water system.

Restricted Cash Accounts

The District is required to maintain special deposit accounts for customer deposits and long-term debt obligations. The following is a listing of restricted cash accounts of the District:

Customer Deposit Fees Account	\$ 30,888
Equipment Replacement Account	54,233
Sewer Revenue Held for the City of Sandy Hook	23,467
Bond and Interest Sinking Fund	183,580
Depreciation Reserve Fund	<u>138,510</u>
Total Restricted Cash Accounts	<u><u>\$ 430,678</u></u>

**NOTE C – NET POSITION**

Equity is classified as net position and displayed in three components:

- Invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets;
- Restricted net position - resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and
- Unrestricted net position - those assets that do not meet the definition of restricted net position or invested in capital assets.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE D – 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, 2017, 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. As of December 31, 2017, the bank balance was \$578,083.

The bank balances were either insured by FDIC or covered by pledged collateral as of December 31, 2017.

**NOTE E – PROPERTY, PLANT, AND EQUIPMENT**

The District’s major classes of utility capital assets and accumulated depreciation are shown below:

	Balance <u>12/31/2016</u>	Additions	Disposals	Balance <u>12/31/2017</u>
Land	\$ 146,998	\$	\$	\$ 146,998
Land Improvements	16,320			16,320
Buildings and Building Improvements	906,007			906,007
Wells and Springs	328,896			328,896
Transmission and Distribution	7,945,363			7,945,363
Treatment Plant	420,514			420,514
Electric Pumping Equipment	30,344	7,410	1,251	36,503
Miscellaneous Equipment	96,287	45,548	1,208	140,627
Furniture and Fixtures	3,896			3,896
Transportation Equipment	85,325			85,325
<b>Total</b>	<b>9,979,950</b>	<b>52,958</b>	<b>2,459</b>	<b>10,030,449</b>



**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE E – PROPERTY, PLANT, AND EQUIPMENT (Continued)**

	<u>Balance 12/31/2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2017</u>
<b>Accumulated Depreciation:</b>				
Land Improvements	11,423	389		11,812
Buildings and Building Improvements	209,601	17,241		226,842
Wells and Springs	51,316	1,226		52,542
Transmission and Distribution	2,392,813	156,782		2,549,595
Treatment Plant	357,015	11,028		368,043
Electric Pumping Equipment	21,615	1,614	874	22,355
Miscellaneous Equipment	85,476	8,735	1,046	93,165
Furniture and Fixtures	3,577	53		3,630
Transportation Equipment	36,934	9,679		46,613
<b>Total</b>	<u>3,169,770</u>	<u>206,747</u>	<u>1,920</u>	<u>3,374,597</u>
<b>Fixed Assets Net of A/D</b>	<u>\$ 6,810,180</u>	<u>\$ (153,789)</u>	<u>\$ 539</u>	<u>\$ 6,655,852</u>

**NOTE G – BONDS AND NOTE PAYABLE**

**1. Waterworks Revenue Series 1988**

On May 25, 1988, the District entered into an agreement with Rural Development to issue \$237,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 6.25% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2017, the principal balance outstanding was \$137,000. Debt service requirements for year ending December 31, 2017, and thereafter are as follows:

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE G – BONDS AND NOTE PAYABLE (Continued)**

**1. Waterworks Revenue Series 1988 (Continued)**

Year Ended December 31	Scheduled Interest	Scheduled Principal
2018	\$ 8,562	\$ 9,000
2019	8,000	9,000
2020	7,438	10,000
2021	6,812	11,000
2022	6,126	11,000
2023-2027	19,064	70,000
2028	1,062	17,000
Totals	\$ 57,064	\$ 137,000

**2. Waterworks Revenue Bond Series 1991**

On July 24, 1991, the District entered into an agreement with Rural Development to issue \$316,000 in Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2017, the principal balance outstanding was \$174,000. Debt service requirements for year ending December 31, 2017, and thereafter are as follows:

Year Ended December 31	Scheduled Interest	Scheduled Principal
2018	\$ 8,700	\$ 10,000
2019	8,200	10,000
2020	7,700	11,000
2021	7,150	11,000
2022	6,600	12,000
2023-2027	23,300	70,000
2028-2030	5,050	50,000
Totals	\$ 66,700	\$ 174,000

**3. Waterworks Revenue Bond Series 1992**

On May 27, 1992, the District entered into an agreement with Rural Development to issue \$70,000 Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2017, the principal balance was paid in full.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE G – BONDS AND NOTE PAYABLE (Continued)**

**4. Waterworks Revenue Bonds Series 1995**

On April 27, 1995, the District entered into an agreement with Rural Development to issue \$259,000 in Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2017, the principal balance outstanding was \$171,500. Debt service requirements for year ending December 31, 2017, and thereafter are as follows:

Year Ended December 31	Scheduled Interest	Scheduled Principal
2018	\$ 7,718	\$ 7,000
2019	7,402	7,000
2020	7,088	7,500
2021	6,750	8,000
2022	6,390	8,000
2023-2027	26,010	47,500
2028-2032	14,492	58,500
2033-2034	1,912	28,000
Totals	\$ 77,762	\$ 171,500

**5. Waterworks Revenue Bonds Series 2001**

On June 20, 2001, the District entered into an agreement with Rural Development to issue \$495,000 Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2017, the principal balance outstanding was \$398,000. Debt service requirements for year ending December 31, 2017, and thereafter are as follows:

Year Ended December 31	Scheduled Interest	Scheduled Principal
2018	\$ 17,910	\$ 9,500
2019	17,482	10,000
2020	17,032	10,500
2021	16,560	11,000
2022	16,066	11,500
2023-2027	72,114	65,000
2028-2032	56,116	81,000
2033-2037	36,182	101,000
2038-2041	11,340	98,500
Totals	\$ 260,802	\$ 398,000

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE G – BONDS AND NOTE PAYABLE (CONTINUED)**

**6. Waterworks Revenue Bonds Series 2014**

On July 21, 2014, the District entered into an agreement with Rural Development to issue \$504,000 Waterworks Revenue bonds for the purpose of the construction of extensions, additions and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 2.75% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2017, the principal balance outstanding was \$487,482. Debt service requirements for year ending December 31, 2017, and thereafter are as follows:

Year Ended December 31	Scheduled Interest	Scheduled Principal
2018	\$ 13,324	\$ 8,000
2019	13,097	8,500
2020	12,863	8,500
2021	12,622	9,000
2022	12,375	9,000
2023-2027	57,921	49,500
2028-2032	50,696	56,000
2033-2037	42,446	64,000
2038-2042	32,995	73,500
2043-2047	22,138	85,000
2048-2052	9,591	97,500
2053	275	18,982
Totals	\$ 280,343	\$ 487,482

**7. Financing Obligation – Kubota Excavator**

On October 19, 2017, the District entered into an agreement with Kubota Credit Corporation in the amount of \$35,548 to purchase a Kubota Excavator with rub tracks and air-conditioned cab. Principal and interest payments at a rate of 6.41% are due on the 19<sup>th</sup> of each month beginning in November 2017. As of December 31, 2017, the principal balance outstanding was \$34,148. Debt service requirements for the year ending December 31, 2017, and thereafter are as follows:

Year Ended December 31	Scheduled Interest	Scheduled Principal
2018	\$ 1,958	\$ 8,047
2019	1,421	8,677
2020	848	9,250
2021	242	8,174
Totals	\$ 4,469	\$ 34,148

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE G – BONDS AND NOTE PAYABLE (CONTINUED)**

**8. Long Term Debt Maturity in the Aggregate**

Year Ended December 31	Scheduled Interest	Scheduled Principal
2018	\$ 58,172	\$ 51,547
2019	55,602	53,177
2020	52,969	56,750
2021	50,136	58,174
2022	47,557	51,500
2023-2027	198,409	302,000
2028-2032	127,416	262,500
2033-2037	80,540	193,000
2038-2042	44,335	172,000
2043-2047	22,138	85,000
2048-2052	9,591	97,500
2053	275	18,982
Totals	<u>\$ 747,140</u>	<u>\$ 1,402,130</u>

**9. Changes in Long-term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Financing Obligations	\$	\$ 35,548	\$ 1,400	\$ 34,148	\$ 8,047
Revenue Bonds	1,454,500		86,518	1,367,982	43,500
<u>Business-type Activities</u>					
Long-term Liabilities	<u>\$ 1,454,500</u>	<u>\$ 35,548</u>	<u>\$ 87,918</u>	<u>\$ 1,402,130</u>	<u>\$ 51,547</u>

The total interest expense incurred by the District during the current fiscal year was \$59,758.

**NOTE H – 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.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE H – RETIREMENT (Continued)**

*General Information about the Pension Plan (Continued)*

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 18.68 percent for the first six months of 2017 and 19.18 percent for the last six months of 2017.

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 2015 was \$35,697, FY 2016 was \$35,853, and FY 2017 was \$35,426.

Benefits fully vest on reaching five (5) 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 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%

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE H – RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

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.

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, 2017, the District has a liability of \$355,485 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of June 30, 2016, 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, 2016, the District's proportion was .00722%.

For the year ended December 31, 2017, the District recognized pension expense of \$59,610. At December 31, 2017, 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**

<b>NON-HAZARDOUS</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 1,552	\$
Changes in assumptions	18,834	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	33,424	
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	9,204	3,455
District Contributions Subsequent to the Measurement Date	<u>58,394</u>	
Total	<u>\$ 121,408</u>	<u>\$ 3,455</u>

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE H – 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:

	Non-Hazardous
Year 1	\$ 19,985
Year 2	\$ 13,371
Year 3	\$ 13,023
Year 4	\$ 7,425
Year 5	\$ 0
Thereafter	\$ 0

Actuarial Methods and Assumptions

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

Inflation	3.25%
Salary Increases	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

Actuarial Methods and Assumptions (Continued)

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 actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of



**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE H – RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Projected future benefit payments for all current plan members were projected through 2117.

Asset Class	Allocation	Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Inflation Strategies)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	(.25)%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50 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 27 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 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 (6.50 percent) or one-percentage-point higher (8.50 percent) than the current rate for non-hazardous:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
<b>NON-HAZARDOUS</b>			
District's Net Pension Liability	\$ 442,992	\$ 355,356	\$ 280,474

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

**NOTE H – RETIREMENT (Continued)**

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, 2017, is based on the June 30, 2016 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.

**NOTE I – INSURANCE COVERAGE**

The District is exposed to various risks of loss. The District carries commercial insurance for risks of loss. As of December 31, 2017, there were no known losses for which an accrual was considered necessary and no estimated claims that have been incurred, but not reported.

**NOTE J – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 14, 2018, which is the date the financial statements were available to be issued.

**NOTE K – COMPENSATED ABSENCES**

It is the District's policy to permit its employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave because the District does not have a policy to pay any amounts when employees separate from service with the District. The unused vacation or annual leave is considered a vested employee benefit.

In recognition of the resulting obligation, the District has accrued a liability for earned but unused vacation leave, having determined that payment of such compensation is probable and having developed a reasonable estimate based upon current salary costs and annual leave balances as of December 31, 2017. The liability for compensated absences at December 31, 2017 was \$6,319.

**NOTE L – FAIR VALUE MEASUREMENT**

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which 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.

**SUPPLEMENTAL INFORMATION**

**SANDY HOOK WATER DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
December 31, 2017**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>		
	2014	2015	2016
District's Proportion of the Net Pension Liability (Asset)	0.006757%	0.007350%	0.007220%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 219,000	\$ 316,014	\$ 355,356
District's Covered-Employee Payroll	\$ 154,733	\$ 168,911	\$ 169,858
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	141.53%	187.09%	209.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	57.52%	53.95%

**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.

**SANDY HOOK WATER DISTRICT  
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS  
December 31, 2017**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually Required Pension Contribution	\$ 21,298	\$ 21,846	\$ 20,515
Pension Contributions in Relation to the Contractually Required Contribution	<u>21,367</u>	<u>21,536</u>	<u>20,515</u>
Pension Contribution Deficiency (Excess)	<u>\$ (69)</u>	<u>\$ 310</u>	<u>\$ 0</u>
District's Covered-Employee Payroll	\$ 154,733	\$ 168,911	\$ 169,858
Pension Contributions as a Percentage of Covered-Employee Payroll	13.76%	12.93%	12.08%

**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.

**SANDY HOOK WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 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 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:** As 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.

**C. 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:

**SANDY HOOK WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2017**

**Note 2. Actuarially Determined Pension Contributions (Continued)**

**C. 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

# *Morgan and Associates, LLC*

*Brenda K. Morgan, CPA*

749 Broadway Street  
P.O. Box 428  
West Liberty, KY 41472

Phone: (606) 743-1884  
Fax: (606) 743-1895  
www.bkmorgancpa.com

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

To the Commissioners  
Sandy Hook Water District  
Sandy Hook, 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 Sandy Hook Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Sandy Hook Water District's basic financial statements and have issued our report thereon dated March 14, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Sandy Hook 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 Sandy Hook Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Sandy Hook Water District's internal control.

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

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



**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***

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky

March 14, 2018