

SANDY HOOK WATER DISTRICT
AUDIT OF FINANCIAL STATEMENTS
For The Year Ended December 31, 2018

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Fund Net Position	5
Statement of Cash Flows	7
Notes to the Financial Statements	9
Required Supplemental Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability	31
Schedule of the Districts' Pension Contributions	32
Schedule of the District's Proportionate Share of the OPEB Liability	33
Schedule of the Districts' OPEB Contributions	34
Notes to Required Supplementary Information	35
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 <i>Government Auditing Standards</i>	37

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INDEPENDENT AUDITOR'S REPORT

To the Board of 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, 2018, 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.

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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of 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, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, the Schedule of the District's Pension Contributions, the Schedule of the District's Proportionate Share of the OPEB Liability, and the Schedule of the District's OPEB 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 May 29, 2019, on our consideration of Sandy Hook 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sandy Hook Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sandy Hook Water District's internal control over financial reporting and compliance.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky
May 29, 2019

**SANDY HOOK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2018**

ASSETS

CURRENT ASSETS

Cash - Unrestricted	\$ 166,750
Cash - Restricted	429,023
Accounts Receivable	97,144
Prepaid Expenses	<u>7,145</u>

Total Current Assets 700,062

NONCURRENT ASSETS

Capital Assets - Net of Accumulated Depreciation

Land	146,998
Land Improvements	4,119
Buildings and Building Improvements	671,052
Wells and Springs	275,127
Electric Pumping Equipment	24,640
Transmission and Distribution	5,238,985
Treatment Plant	41,443
Miscellaneous Equipment	38,791
Transportation Equipment	29,034
Furniture and Fixtures	<u>213</u>

Total Noncurrent Assets 6,470,402

TOTAL ASSETS 7,170,464

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension	97,790
Deferred Outflows - OPEB	30,464

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

**SANDY HOOK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2018**

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accrued Interest	27,149
Due to City of Sandy Hook	30,860
Accrued Taxes	3,372
Accrued Salaries	5,082
Unearned Revenues	2,833
Accrued Retirement	4,133
Accrued Health Insurance	7,247
Accounts Payable	8,475
Bonds Payable	44,500
Total Current Liabilities	<u>133,651</u>

LONG-TERM LIABILITIES

Bonds Payable	1,279,982
Compensated Absenses	6,319
Total Long-Term Liabilities	<u>1,286,301</u>

OTHER LIABILITIES

Net Pension Liabilities	433,630
Net OPEB Liabilities	126,396
Customer Deposits	24,855
Total Other Liabilities	<u>584,881</u>

TOTAL LIABILITIES 2,004,833

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension	35,083
Deferred Inflows - OPEB	25,527

NET POSITION

Invested in Capital Assets, Net of Related Debt	5,145,920
Restricted for:	
Debt Service	196,770
Depreciation Reserve	171,704
Sewer Collections	30,860
Unrestricted	<u>(311,979)</u>

TOTAL NET POSITION 5,233,275

TOTAL LIABILITIES AND NET POSITION \$ 7,298,718

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, 2018

OPERATING REVENUES

Water Sales	\$ 768,682
Service Revenues	18,545
Miscellaneous Revenues	<u>15,007</u>
 Total Operating Revenues	 802,234

OPERATING EXPENSES

Water Expenses	
Advertising	520
Depreciation	208,814
Dues and Subscriptions	4,071
Legal and Accounting Services	8,500
Miscellaneous	9,917
Office Supplies	2,234
Payroll Taxes	16,005
Postage and Freight	6,605
Professional Services	11,134
Insurance	53,396
Workers Comp	4,336
Repairs and Maintenance	85,141
Retirement	69,385
OPEB	15,773
Salaries and Wages	230,200
Supplies and Testing	26,559
Taxes and Licenses	1,973
Telephone and Utilities	70,126
Travel and Automobile	<u>11,799</u>
 Total Operating Expenses	 <u>836,488</u>

NET OPERATING INCOME (LOSS)	(34,254)
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The accompanying notes are an integral part of the financial statements.

SANDY HOOK WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For The Year Ended December 31, 2018

NON OPERATING REVENUES (EXPENSES)

Gain (Loss) on Sales	(1,079)
Interest Expense	(51,301)
Interest Income	<u>1,180</u>
Total Non Operating Revenues (Expenses)	<u>(51,200)</u>
Net Change in Net Position	(85,454)
Net Position - Beginning (Restated)	<u>5,318,729</u>
Total Net Position - Ending	<u><u>\$ 5,233,275</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, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Payments from Customers	\$ 761,098
Payments for Sewer Collection Fees	8,800
Miscellaneous Revenue	15,007
Payments to Vendors	(293,108)
Payments for Payroll and Related Expenses	<u>(272,420)</u>
 Net Cash Provided (Used) by Operating Activities	 219,377

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Capital Asset Additons	(24,443)
Interest Paid on Debt	(51,301)
Payments on Capital Debt	<u>(77,649)</u>
 Net Cash Provided (Used) by Capital and Related Financing Activities	 (153,393)

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest	<u>1,180</u>
 Net Cash Provided (Used) by Investing Activities	 <u>1,180</u>

INCREASE (DECREASE) IN CASH 67,164

CASH AT BEGINNING OF YEAR 528,609

CASH AT END OF YEAR \$ 595,773

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, 2018**

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

Net Operating Income (Loss)	\$ (34,254)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	208,814
Changes in Assets/Liabilities:	
Accounts Receivable	(15,795)
Accounts Payable	(169)
Accrued Taxes	4,517
Accrued Retirement	4,133
Accrued Health Insurance	4,452
Accrued Salaries and Wages	4,189
Accrued Interest	(4,021)
Due to City of Sandy Hook	7,393
Customer Deposits	(1,534)
Net Pension Liability	12,602
OPEB Liability	(18,208)
Deferred Inflows	11,667
Deferred Outflows	<u>35,591</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 219,377</u>

Supplementary Information

Interest Expensed	<u>\$ 51,301</u>
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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, 2018

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

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2018**

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, 2018. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 28, 2018 was for customer usage from approximately November 26 through December 25, 2018. The entire amount is considered accounts receivable as of December 31, 2018. The billing mailed on January 27, 2019 was for usage from approximately December 26, 2018 through January 25, 2019. Approximately five days of this billing is considered unbilled receivables at December 31, 2018.

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, 2018 is \$208,814

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 2018.

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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, 2018 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, 2018**

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, 2018, \$97,768 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2019. The balance in this account at December 31, 2018 was \$196,770.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit \$2,520 per month into the account. At December 31, 2018, \$75,430 was the required balance of the Depreciation Reserve account. The District had \$150,871 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	\$ 29,689
Equipment Replacement Account	20,833
Sewer Revenue Held for the City of Sandy Hook	30,860
Bond and Interest Sinking Fund	196,770
Depreciation Reserve Fund	<u>150,871</u>
 Total Restricted Cash Accounts	 <u><u>\$ 429,023</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, 2018**

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, 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 E – PROPERTY, PLANT, AND EQUIPMENT

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

	Balance 12/31/2017	Additions	Disposals	Balance 12/31/2018
Land	\$ 146,998	\$	\$	\$ 146,998
Land Improvements	16,320			16,320
Buildings and Building Improvements	906,007	10,754		916,761
Wells and Springs	328,896			328,896
Transmission and Distribution	7,945,362			7,945,362
Treatment Plant	420,514			420,514
Electric Pumping Equipment	36,503	13,689	3,597	46,595
Miscellaneous Equipment	140,627			140,627
Furniture and Fixtures	3,896			3,896
Transportation Equipment	85,326			85,326
Total	10,030,449	24,443	3,597	10,051,295

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

	Balance 12/31/2017	Additions	Disposals	Balance 12/31/2018
Accumulated Depreciation:				
Land Improvements	11,812	389		12,201
Buildings and Building Improvements	226,842	18,867		245,709
Wells and Springs	52,542	1,227		53,769
Transmission and Distribution	2,549,595	156,782		2,706,377
Treatment Plant	368,043	11,028		379,071
Electric Pumping Equipment	22,354	2,118	2,517	21,955
Miscellaneous Equipment	93,164	8,672		101,836
Furniture and Fixtures	3,630	53		3,683
Transportation Equipment	46,613	9,679		56,292
Total	<u>3,374,595</u>	<u>208,815</u>	<u>2,517</u>	<u>3,580,893</u>
Fixed Assets Net of A/D	<u>\$ 6,655,854</u>	<u>\$ (184,372)</u>	<u>\$ 1,080</u>	<u>\$ 6,470,402</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, 2018, the principal balance outstanding was \$128,000. Debt service requirements for year ending December 31, 2018, and thereafter are as follows:

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE G – BONDS AND NOTE PAYABLE (Continued)

1. Waterworks Revenue Series 1988 (Continued)

Year Ended December 31	Scheduled Principal	Scheduled Interest
2019	\$ 9,000	\$ 8,000
2020	10,000	7,438
2021	11,000	6,812
2022	11,000	6,126
2023	12,000	5,438
2024-2028	75,000	12,769
Totals	<u>\$ 128,000</u>	<u>\$ 46,583</u>

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, 2018, the principal balance outstanding was \$164,000. Debt service requirements for year ending December 31, 2018, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2019	\$ 10,000	\$ 8,200
2020	11,000	7,700
2021	11,000	7,150
2022	12,000	6,600
2023	13,000	6,000
2024-2028	73,000	19,800
2029-2030	34,000	850
Totals	<u>\$ 164,000</u>	<u>\$ 56,300</u>

3. 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, 2018, the principal balance outstanding was \$164,500. Debt service requirements for year ending December 31, 2018, and thereafter are as follows:

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE G – BONDS AND NOTE PAYABLE (Continued)

3. Waterworks Revenue Bonds Series 1995 (Continued)

Year Ended December 31	Scheduled Principal	Scheduled Interest
2019	\$ 7,000	\$ 7,402
2020	7,500	7,088
2021	8,000	6,750
2022	8,000	6,390
2023	9,000	6,030
2024-2028	49,000	23,872
2029-2033	61,500	11,860
2034	14,500	652
Totals	<u>\$ 164,500</u>	<u>\$ 70,044</u>

4. 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, 2018, the principal balance outstanding was \$388,500. Debt service requirements for year ending December 31, 2018, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2019	\$ 10,000	\$ 17,482
2020	10,500	17,032
2021	11,000	16,560
2022	11,500	16,066
2023	12,000	15,548
2024-2028	68,000	62,951
2029-2033	84,500	52,472
2034-2038	105,500	31,636
2039-2041	75,500	6,908
Totals	<u>\$ 388,500</u>	<u>\$ 236,655</u>

5. 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 19th of each month beginning in November 2017. As of December 31, 2018, the principal balance was paid in full.

SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

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, 2018, the principal balance outstanding was \$479,482. Debt service requirements for year ending December 31, 2018, and thereafter are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2019	\$ 8,500	\$ 13,097
2020	8,500	12,863
2021	9,000	12,622
2022	9,000	12,375
2023	9,500	12,121
2024-2028	50,500	56,546
2029-2033	57,500	49,135
2034-2038	66,000	40,659
2039-2043	75,500	30,945
2044-2048	87,500	19,767
2049-2053	97,982	6,889
Totals	<u>\$ 479,482</u>	<u>\$ 267,019</u>

7. Long Term Debt Maturity in the Aggregate

<u>Year Ended</u> <u>December 31</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2019	\$ 44,500	\$ 54,181
2020	47,500	52,121
2021	50,000	49,894
2022	51,500	47,557
2023	55,500	45,137
2024-2028	315,500	175,938
2029-2033	237,500	114,317
2034-2038	186,000	72,947
2039-2043	151,000	37,853
2044-2048	87,500	19,767
2049-2053	97,982	6,889
Totals	<u>\$ 1,324,482</u>	<u>\$ 676,601</u>

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE G – BONDS AND NOTE PAYABLE (CONTINUED)

8. Changes in Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Financing Obligations	\$ 34,148	\$	\$ 34,148	\$	\$
Revenue Bonds	1,367,982		43,500	1,324,482	44,500
<u>Business-type Activities</u>					
Long-term Liabilities	<u>\$ 1,402,130</u>	<u>\$ 0</u>	<u>\$ 77,648</u>	<u>\$ 1,324,482</u>	<u>\$ 44,500</u>

The total interest expense incurred by the District during the current fiscal year was \$51,301.

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.

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.

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 \$35,853, 2017 was \$35,426, and 2018 was \$43,506.

**SANDY HOOK WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Year Ended December 31, 2018**

NOTE H – RETIREMENT (Continued)

General Information about the Pension Plan (Continued)

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%

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, 2018, the District has a liability of \$433,630 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 .007120%.

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE H – RETIREMENT (Continued)

Pension Liabilities (Continued)

For the year ended December 31, 2018, the District recognized pension expense of \$69,385. 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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Experience	\$ 14,144	\$ 6,347
Assumption Changes	42,378	
Investment Experience	20,164	\$ 25,364
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions		\$ 3,372
District Contributions Subsequent to Measurement Date	<u>21,104</u>	
Total	<u>\$ 97,790</u>	<u>\$ 35,083</u>

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	\$ 33,132
2020	\$ 16,294
2021	\$ (5,946)
2022	\$ (2,328)
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.

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE H – RETIREMENT (Continued)

Pension Liabilities (Continued)

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability (Continued)

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.

<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%

**SANDY HOOK WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Year Ended December 31, 2018**

NOTE H – RETIREMENT (Continued)

Pension Liabilities (Continued)

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:

NON-HAZARDOUS	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's Net Pension Liability	\$ 545,895	\$ 433,630	\$ 339,571

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.

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE H – RETIREMENT (Continued)

Pension Liabilities (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, 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.

NOTE I – 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 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.

**SANDY HOOK WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Year Ended December 31, 2018**

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

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.

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-Year Municipal GO AA Index” as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit 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.

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
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%

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:

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

Sensitivity of the Net OPEB to Changes in the Discount Rate (Continued)

NON-HAZARDOUS	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
District's OPEB Liability	\$ 164,169	\$ 126,396	\$ 94,221

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:

NON-HAZARDOUS	1% Decrease	Current Trend Rate	1% Increase
District's OPEB Liability	\$ 94,103	\$ 126,396	\$ 164,461

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

At December 31, 2018, the District reported a liability of \$126,396 (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 0.007119%, non-hazardous.

For the year ended December 31, 2018, the District recognized OPEB expense of \$15,773 nonhazardous. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE I – 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	\$	\$ 14,730
Changes in assumptions	25,243	292
Investment Experience		8,706
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions		1,799
District Contributions Subsequent to the Measurement Date	<u>5,220</u>	
Total	<u>\$ 30,463</u>	<u>\$ 25,527</u>

The \$5,220 (non-hazardous) of deferred outflows of resources 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	\$ 98
2020	\$ 98
2021	\$ 98
2022	\$ 1,789
2023	\$ (1,449)
Thereafter	\$ (918)

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.

NOTE J – INSURANCE COVERAGE

The District is exposed to various risks of loss. The District carries commercial insurance for risks of loss. As of December 31, 2018, there were no known losses for which an accrual was considered necessary and no estimated claims that have been incurred, but not reported. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**SANDY HOOK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE K – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 29, 2019, which is the date the financial statements were available to be issued.

NOTE L – 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, 2018. The liability for compensated absences at December 31, 2018 was \$6,319.

NOTE M – 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.

NOTE N – PRIOR PERIOD ADJUSTMENT

The prior period Net Position – Beginning was decreased by \$213,148 to adjust for net pension and OPEB liabilities.

NOTE O – RELATED PARTY TRANSACTION

The spouse of the District's general manager received \$3,875 for hauling rock.

SUPPLEMENTAL INFORMATION

SANDY HOOK WATER DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY
 December 31, 2018

	Non-Hazardous				
	2014	2015	2016	2017	2018
<i>(Actuarial Valuation Report Year)</i>					
District's Proportion of the Net Pension Liability (Asset)	0.006757%	0.007350%	0.007220%	0.007193%	0.007120%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 219,000	\$ 316,014	\$ 355,356	\$ 329,031	\$ 433,630
District's Covered-Employee Payroll	\$ 154,733	\$ 168,911	\$ 169,858	\$ 172,294	\$ 174,062
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	141.53%	187.09%	209.21%	190.97%	249.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	59.97%	55.50%	53.30%	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 68.

**SANDY HOOK WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
December 31, 2018**

	Non-Hazardous				
	2014	2015	2016	2017	2018
nj <i>(Actuarial Valuation Report Year)</i>					
Contractually Required Pension Contribution	\$ 21,298	\$ 21,846	\$ 20,515	\$ 24,431	\$ 25,552
Pension Contributions in Relation to the Contractually Required Contribution	<u>21,367</u>	<u>21,536</u>	<u>20,515</u>	<u>24,431</u>	<u>25,552</u>
Pension Contribution Deficiency (Excess)	<u>\$ (69)</u>	<u>\$ 310</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's Covered-Employee Payroll	\$ 154,733	\$ 168,911	\$ 169,858	\$ 172,294	\$ 174,062
Pension Contributions as a Percentage of Covered-Employee Payroll	13.76%	12.93%	12.08%	14.18%	14.68%

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 PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY
December 31, 2018

	Non-Hazardous	
	2017	2018
<i>(Actuarial Valuation Report Year)</i>		
District's Proportion of the OPEB Liability (Asset)	0.006825%	0.007286%
District's Proportionate Share of the OPEB Liability (Asset)	\$ 137,206	\$ 129,361
District's Covered-Employee Payroll	\$ 172,294	\$ 174,062
District's Proportionate Share of the OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	79.63%	74.32%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	53.30%	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.

SANDY HOOK WATER DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
December 31, 2018

<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous	
	2017	2018
Contractually Required OPEB Contribution	\$ 8,720	\$ 10,032
OPEB Contributions in Relation to the Contractually Required Contribution	8,720	10,032
OPEB Contribution Deficiency (Excess)	\$ 0	\$ 0
District's Covered-Employee Payroll	\$ 172,294	\$ 174,062
OPEB Contributions as a Percentage of Covered-Employee Payroll	5.06%	5.76%

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.

SANDY HOOK WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2018

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: 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.

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 27-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, 2018**

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

D. Actuarial Methods and Assumptions used to determine the Actuarial Determined Contributions for Fiscal Year 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
Payroll Growth Rate	4.00%
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 Increase	4.00%
Investment Rate of Return	7.50% for CERS Non-hazardous

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

To the Board of Commissioners
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, 2018, 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 May, 29, 2019.

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 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 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
May 29, 2019