Todd County Water District

A Component Unit of Todd County, Kentucky

Financial Statements

December 31, 2018



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Independent Auditors' Report

Commissioners
Todd County Water District
Elkton, Kentucky

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Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matter

As described in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB"). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and select pension and OPEB information on pages 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

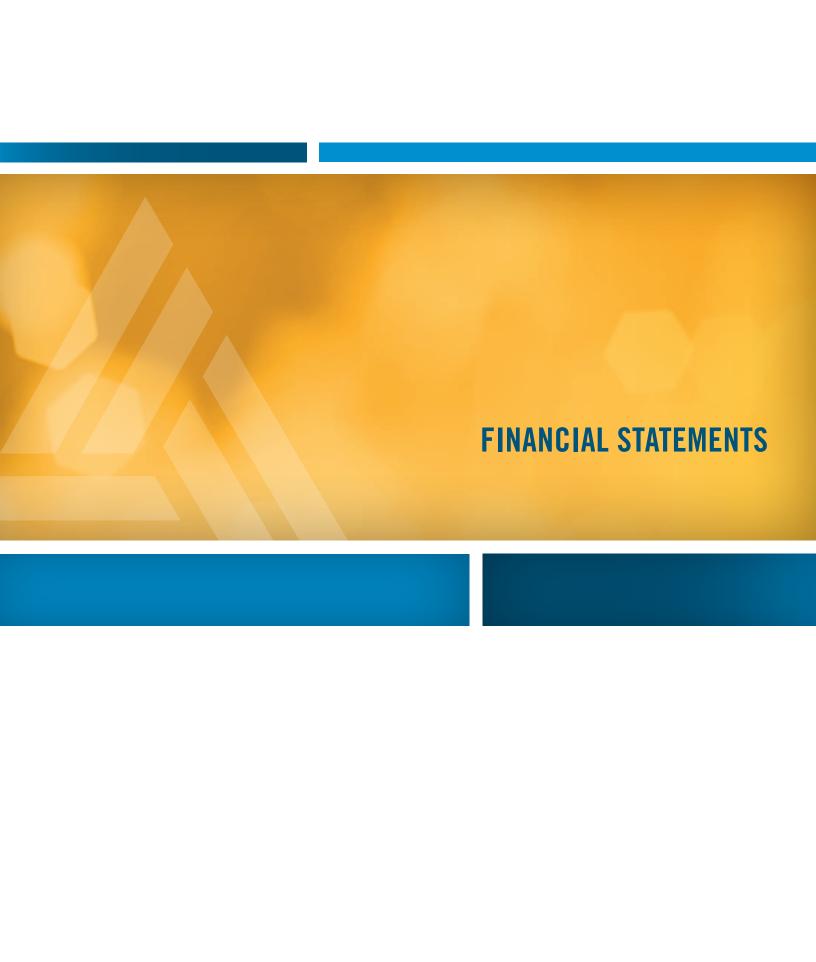
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, LLC Bowling Green, Kentucky

Can, Rigge & Ingram, L.L.C.

August 28, 2019



Todd County Water District

A Component Unit of Todd County, Kentucky Management's Discussion and Analysis Year Ended December 31, 2018

The Todd County Water District's discussion and analysis is designed to offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2018. Readers are encouraged to read the Management's Discussion and Analysis included in the audit and the District's financial statements.

• Financial Highlights

- The total assets and deferred outflows of resources of the District exceeded its total liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$4,934,662 compared to \$5,119,502 in the 2017 fiscal year. Of this amount, \$1,117,325 may be used to meet the District's ongoing obligations to citizens and creditors, as compared to \$914,482 for the 2017 fiscal year. It is the District's intent to use these assets to operate the District. The restricted net position is earmarked for unbudgeted repairs and maintenance cost and debt service of the District. Total deferred outflows of resources were \$294,749 for 2018 compared to \$301,026 in 2017. Of this amount, \$219,941 for 2018 is from pension related deferred outflows related to GASB 68, as compared to \$288,167 in 2017. Additionally, of this amount, \$62,770 is from a new account in the current year related to the implementation of GASB 75. Total deferred inflows of resources were \$109,945 for 2018 compared to \$73,704 in 2017. Of this amount, \$62,589 for 2018 is from pension related deferred outflows related to GASB 68, as compared to \$73,704 in 2017. Additionally, of this amount, \$47,356 is from a new account in the current year related to the implementation of GASB 75.
- The District has \$6,008,379, in long-term debt, net of current portion, as compared to \$5,875,269 for the 2017 fiscal year. Of this amount, \$855,871 in 2018 is related to the net pension liability related to GASB 68, as compared to \$799,269 in 2017. Additionally, of this amount, \$249,508 is from a new account in the current year related to the implementation of GASB 75.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) Financial Statements; and 2) Notes to the Financial Statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

▶ Financial Statements

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues and expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The financial statements can be found on pages 9 through 14 of this report.

▶ Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15 through 38 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,934,662 as compared with \$5,119,502 for the 2017 fiscal year.

Net Position as of December 31, 2018 and 2017

	2018	2017
Current assets Capital and other assets	2,652,117 10,843,426	2,306,181 10,340,187
Total Assets	13,495,543	12,646,368
Deferred amount of debt refundings Pension related	12,038 219,941	12,859 288,167
OPEB related	62,770	
Total Deferred Outflows of Resources	294,749	301,026
Long-term liabilities	6,008,379	5,875,269
Other liabilities (current)	2,737,306	1,878,919
Total Liabilities	8,745,685	7,754,188

Pension related	62,589	73,704
OPEB related	47,356	
Total Deferred Inflows of Resources	109,945	73,704
Net Position		
Net investment in capital assets	3,486,474	3,864,098
Restricted	330,863	340,922
Unrestricted	1,117,325	914,482
Total Net Position	4,934,662	5,119,502

By far the largest portion of the District's net position in the amount of \$3,486,474 reflects its investment in capital assets (e.g., infrastructure, buildings, equipment, and vehicles). This is a decrease from \$3,864,098 for the 2017 fiscal year. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Unrestricted net assets in the amount \$1,117,325 may be used to meet the District's ongoing obligation to customers and creditors. This is an increase from \$914,482 from the 2017 fiscal year. The remaining restricted net position is for replacement reserves for future years.

Deferred Outflows of Resources decreased to \$294,749 in 2018 from \$301,026 in 2017. This amount included \$219,941 in pension related outflows and \$62,770 in OPEB related outflows for 2018.

Deferred Inflows of Resources increased to \$109,945 in 2018 from \$73,704 in 2017. This amount included \$62,589 in pension related outflows and \$49,356 in OPEB related outflows for 2018.

At December 31, 2018, and 2017, the District is able to report positive balances in all categories of net assets.

Changes in Net Position

	2018	2017
Revenues		
Water service revenues	2,424,604	2,160,666
Other revenues	41,296	37,308
Total Operating Revenues	2,465,900	2,197,974
Expenses Water operations Total Operating Expenses	2,298,081 2,298,081	2,261,360 2,261,360
Net Operating Income (Loss)	167,819	(63,386)
Non-operating revenue (expenses), net Loss Before Capital Contributions	(173,373) (5,554)	(191,062) (254,448)

Capital contributions	30,518	32,032
Change in Net Position	24,964	(222,416)
Net Position – Beginning of Year, as previously reported	5,119,502	5,341,918
Effect of Adoption of GASB 75	(209,804)	
Net Position – End of Year	4,934,662	5,119,502

Revenues

Water sold is the Water District's primary source of revenue. For the fiscal year of 2018 revenue from water sold was \$2,392,330 an increase from \$2,127,946 in the 2017 year.

Capital grants and contributions totaled \$30,518 for fiscal year 2018. These funds were received from customers for tap on fees. This is a decrease from the \$32,032 for the fiscal year of 2017.

Unrestricted investment earnings totaled \$3,795 for fiscal year 2017 and increased to \$4,653 for the 2018 fiscal year. The District earned its investment revenues by placing idle cash in Certificates of Deposits and Reserve Funds.

Other operating revenues totaled \$73,570 for the fiscal year 2018 which was an increase from the prior year. The 2017 total for Other Operating Revenue was \$70,028.

• Expenses

Operating expenses totaled \$2,298,081 for fiscal year 2018 which was an increase from the 2017 amount of \$2,261,360. These expenses relate directly to the everyday operations of the District such as payroll, transmission and distribution, and purchased water.

Interest expense totaled \$178,026 for fiscal year 2018 a decrease from \$194,857 for the 2017 fiscal year.

Change in net position for 2017 was (\$222,416) as compared to 2018 which was \$24,964.

Capital Assets and Debt Administration

▶ Capital Assets

The District's investment in capital assets at December 31, 2018 amounts to \$10,753,426 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, equipment and vehicles. This is an increase from \$10,290,187 for the 2017 fiscal year.

Additional information on the District's capital assets can be found in Note 4 of the financial statements.

▶ Long-Term Debt

Long-term debt, net of current portion, totaled \$6,008,379 at December 31, 2018, an increase from \$5,875,269 for the 2017 fiscal year. Outstanding debt at year-end was to finance the District's infrastructure. The only activity for debt was the servicing requirements and borrowing for the expansion projects. The net pension liability caused by GASB 68 totaled \$855,871 for 2018 which was an increase compared to \$799,269 in 2017. Due to the implementation of GASB 75 in the current year, the District added a \$249,508 Net OPEB liability.

▶ Operation and Maintenance Budgetary Highlights

The District's O & M budget was increased by 3 percent over the prior year. Variances between the revenues that were budgeted and the actual amounts collected are not significant.

Any variances are not expected to have a significant effect on future services or liquidity of the District.

Also now having Budgetary Influence on the Water District are the effects of GASB 68 and the effects of the adoption of GASB 75. These effects are noted beginning on page 27 "Employee Retirement Plan" thru page 37.

▶ Economic Factors and Next Year's Budget and Rates

The District's primary source of revenue is water sold to customers. This revenue will vary along with the number of customers the Water District has at any given time.

The costs of water and line loss are areas the District continually monitor as they have the most direct impact on the operations of the District.

During the current fiscal year, the Operation and Maintenance account balance increased to \$369,496. This is a change (increase) from the 2017 balance of \$310,178.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information should be addressed to Todd County Water District, PO Box 520, Elkton, KY 42220.

Todd County Water District A Component Unit of Todd County, Kentucky Statements of Net Position

December 31,		2018
Assets		
Current assets		
Cash	\$	369,496
Short-term investments	,	1,271,721
Accounts receivable — billed		205,341
Accounts receivable — unbilled		71,170
Supplies		62,800
Prepaid expenses		23,639
Total current assets		2,004,167
Cash — restricted		647,950
Investments		90,000
Utility plant		
Utility plant in service		19,605,253
Less: accumulated depreciation		(8,851,827)
Net utility plant		10,753,426
Total assets		13,495,543
Deferred outflows of resources		
Deferred amount on debt refundings		12,038
Pension related		219,941
OPEB related		62,770
Total deferred outflows of resources		294,749

Todd County Water District A Component Unit of Todd County, Kentucky Statements of Net Position

December 31,		2018
Liabilities		
Current liabilities		
		120 /10
Accounts payable Accrued liabilities		128,419
		2,095
Accrued interest payable		157,256
Short term notes payable		2,276,536
Current portion of notes payable		173,000
Total current liabilities		2,737,306
Long-term liabilities		
Long-term debt, net of current portion		4,903,000
Net pension liability		855,871
Net OPEB liability		249,508
Net OPEB liability		249,306
Total long-term liabilities		6,008,379
Total liabilities		8,745,685
Deferred Inflows of Resources		
Pension related		62,589
OPEB related		47,356
Total deferred inflows of resources		109,945
Total deferred innova of resources		103,3 13
Net Position		
Net investment in capital assets		3,486,474
Restricted		330,863
Unrestricted		1,117,325
Total net position	\$	4,934,662
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Todd County Water District A Component Unit of Todd County, Kentucky Statements of Revenues, Expenses and Changes in Net Position

Year Ended December 31,		2018
Operating Poyonucs		
Operating Revenues Water revenue	\$	2,392,330
	Ş	
Late charges Other		32,274
Other		41,296
Total operating revenues		2,465,900
Operating Expenses		
Payroll		341,694
Retirement		212,664
Health insurance		26,352
Payroll taxes		25,334
Purchased water		900,212
Transmission and distribution		62,017
Contract services		20,073
Utilities		25,621
Telephone		3,238
Dues and subscriptions		5,422
Professional fees		22,363
Insurance		33,665
Commissioners' fees		18,000
Taxes and licenses		4,306
Office supplies and postage		36,111
Depreciation		511,153
Travel		23,345
Bad debts		19,469
Miscellaneous		7,042
Total operating expenses		2,298,081
Operating income		167,819

Todd County Water District A Component Unit of Todd County, Kentucky Statements of Revenues, Expenses and Changes in Net Position

Year Ended December 31,	2018
Non-Operating Revenues (Expenses)	4.652
Interest income Interest expense	4,653 (178,026)
microst expense	(170,020)
Total non-operating expenses	(173,373)
Loss before capital contributions	(5,554)
Capital contributions	30,518
Change in net position	24,964
Net position — beginning of year	5,119,502
Effect of adoption of GASB 75	(209,804)
Net position — end of year	\$ 4,934,662

Todd County Water District A Component Unit of Todd County, Kentucky Statements of Cash Flows

Year Ended December 31,	2018
Cash Flows from Operating Activities	
Cash received from customers	\$ 2,463,317
Cash payments to suppliers for goods and services	(1,099,695)
Cash paid to employees	(596,983)
Net cash flows provided by operating activities	766,639
Cash Flows from Capital and Related Financing Activities	
Interest paid on debt	(186,402)
Purchase of capital assets	(909,333)
Proceeds from short-term debt	840,307
Principal payments on long-term debt	(165,500)
Capital contributions	30,518
Net cash flows used in capital and related financing activities	(390,410)
Cash Flows from Investing Activities	
Interest income	4,653
Purchase of investments	(253,317)
Net cash flows used in investing activities	(248,664)
Net increase in cash	127,565
Cash - beginning of year	889,881
Cash - end of year	\$ 1,017,446

Todd County Water District A Component Unit of Todd County, Kentucky Statements of Cash Flows

Year Ended December 31,		2018
Reconciliation of Operating Income to Net Cash Provided by Operating		
Activities Operating income	۲.	167.010
Operating income	\$	167,819
Adjustments to reconcile operating income to net cash provided by		
operating activities:		
Depreciation		511,153
Pension expense in excess of pension contributions		113,713
OPEB expense in excess of OPEB contributions		24,290
Change in:		
Accounts receivable		(2,583)
Supplies		(827)
Prepayments		(1,644)
Accounts payable		(40,331)
Other current liabilities		(4,951)
Net cash provided by operating activities	\$	766,639
Noncash activities from capital and related financing activities		
 The District capitalized accrued interest as a component of construction in progress 	\$	65,059

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Todd County Water District (the "District") was chartered in 1971. It is a distributor of water under the authority of the Public Service Commission of Kentucky. The District provides service to customers in Todd County and a small area in Logan and Muhlenberg Counties.

Reporting Entity

The District is governed by a five-member board (the "Board"). The criteria for determining the District as a component unit of Todd County, Kentucky, the primary government, is financial accountability. As set forth in GASB 14, *The Financial Reporting Entity*, a primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to impose its will on that organization. The majority of the Commissioners of the Board are appointed by the Todd County Judge Executive subject to the approval of the Todd County Fiscal Court. Todd County is able to impose its will on the District through the ability to remove appointed members of the Board at will and the ability to modify or approve the budget of the District.

Basis of Presentation

The records of the District are maintained on the accrual method of accounting. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds 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 (expenses, 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.

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position.

Operating revenues within the proprietary fund are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

Net position is classified into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets — This component of net position consists of the District's total investment in capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of the net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted — This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted assets will be reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted Net Position — This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

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

Investments

Investments consist of non-brokered certificates of deposit and are recorded at cost. The cost of investments approximates their fair value. KRS 66.480 permits the District to invest in U.S. Treasury obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit and the Commonwealth of Kentucky investment pool.

Accounts Receivable

Billed receivables are stated at the amount billed to customers. Unbilled receivables are recorded for services provided for which customers have not been billed at December 31, 2018. The District's operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 10th of each month. Accounts unpaid on the 25th of each month are considered delinquent and service is disconnected. The District provides no allowance for doubtful accounts due to the historical nature of the accounts receivable and the District's ability to disconnect service. Delinquent receivables are written off. New service is denied until all outstanding balances have been settled.

Supplies

Operating supplies is stated at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

Utility Plant

Expenditures for utility plant with an original cost of \$500 or more are capitalized at cost, while maintenance and repairs are charged to operations when incurred. Depreciation is recorded on the straight-line method over the estimated useful life. Interest costs for utility plant asset construction are capitalized.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources – Pension Related

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of the financial statements. The deferred outflows of resources reported in this year's financial statements include (1) deferred amount arising from the refunding of bonds, (2) a deferred outflow of resources for contributions made to the District's defined benefit pension plan between the measurement date of the net pension pension liabilities from the plan and the end of the District's fiscal year, (3) and deferred outflows of resources related to the differences between the expected and actual demographics for the cost sharing defined benefit plan. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred amounts related to the actuarial assumptions for demographic factors in the cost sharing pension plan will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.

Deferred Inflows of Resources – Pension Related

The District's financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s). Deferred inflows of resources are reported in the District's financial statement of net position for gains on refunding bond amounts and for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of 5 years, including the current year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. Deferred inflows of resources also include changes in the proportion and differences between employee contributions and the proportion share of contributions in the cost sharing plan and are amortized over the expected remaining service lives of the employees participating in the plan.

Deferred Inflows and Outflows of Resources – OPEB Related

The District's statement of net position reports a separate section for deferred inflows and outflows of resources related to OPEB which includes 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. Deferred outflows include resources for the District's contributions made subsequent to the measurement date. 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 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Certified Employees Retirement System (CERS) and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The District proportionate share of pension amounts were further allocated to each participating employer based on the contributions paid by each employer. Pension investments are reported at fair value. Note 8 provides further detail on the net pension liability.

Net Other Post-Employment Benefits (OPEB) Liability

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Certified Employees Retirement System (CERS) and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The District's proportionate share of OPEB amounts were further allocated to each participating employer based on the contributions paid by each employer. OPEB investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. Note 9 provides further detail on the net OPEB liability.

Post-Employment Health Care Benefits

Retired District employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS plan.

Income Taxes

The District is exempt from federal and state income taxes under Section 501 of the Internal Revenue Code.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through August 28, 2019, which was the date the financial statements were made available.

Recently Issued and Adopted Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this Statement is to address accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The District has implemented the new requirements of this Statement for the fiscal year ended December 31, 2018. The implementation of GASB Statement No. 75 resulted in a reduction of beginning net position by \$209,804.

Recent Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District is evaluating the requirements of this Statement.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The District is evaluating the requirements of this Statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District is evaluating the requirements of this Statement.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District is evaluating the requirements of this Statement.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District is evaluating the requirements of this Statement.

In August 2018, the GASB issued Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The District is evaluating the requirements of this Statement.

NOTE 2: CASH AND INVESTMENTS

Deposits

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2018, the carrying amounts of the District's deposits were \$2,379,167 and the bank balances were \$2,381,733. Of the bank balance, \$2,183,209 was covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name and \$198,524 was uninsured and uncollateralized.

December 31,	2018
Cash	\$ 369,496
Investments	1,361,721
Restricted cash	647,950
	\$ 2,379,167

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute for bank deposits to be collateralized. As of December 31, 2018, \$198,524 of the Districts bank balance was exposed to custodial credit risk.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Credit Risk

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and 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 or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has an investment policy that requires additional investments to be in the form of a certificate of deposit.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. At December 31, 2018, there are no investments in any one issuer that represents 5% or more of the total investments.

NOTE 3: CASH – RESTRICTED

Restricted cash consists of the following at:

December 31,		2018		
Construction	\$	74,900		
Depreciation reserve		329,509		
Debt service reserve		243,541		
	\$	647,950		

Certain bond agreements require the District to maintain replacement and debt sinking reserves. The construction amount is for the District's current construction project.

NOTE 4: UTILITY PLANT

Utility plant activity is as follows:

	Capital Cost			
	Beginning		Retirements/	Ending
December 31, 2018	Balance	Additions	Reclassifications	Balance
Capital assets that are not				
depreciated:				
Land and land improvements	\$ 98,632	\$ -	\$ -	\$ 98,632
Construction in progress	1,458,429	863,662	· ·	2,322,091
Construction in progress	1,430,423	803,002		2,322,031
Total non-depreciable cost	1,557,061	863,662	-	2,420,723
Capital assets that are depreciated:				
Structures and Improvements	1,092,120	-	-	1,092,120
Distribution reservoirs and	, ,			, ,
standpipes	3,233,074	_	-	3,233,074
Transmission and distribution				
mains	10,760,507	12,260	-	10,772,767
Meters and installations	1,718,362	67,861	-	1,786,223
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	187,963	29,557	-	217,520
Office equipment	66,499	1,052	-	67,551
Power operating equipment	2,500	-	-	2,500
Communication equipment	2,875	-	-	2,875
Total depreciable historical cost	17,073,800	110,730	-	17,184,530
Accumulated depreciation	(8,340,674)	(511,153)	-	(8,851,827)
	8,733,126	(400,423)		8,332,703
Utility plant, net	\$10,290,187	\$ 463,239	\$ -	\$ 10,753,426

For the year ended December 31, 2018, the District capitalized \$65,059 of interest cost relating to a construction project.

NOTE 5: SHORT-TERM DEBT

Short-term debt provides interim financing for capital construction activities. On August 4, 2017, the District entered into a loan agreement with the Kentucky Rural Water Finance Corporation (RD) to provide financing for a construction project. The agreement provides interim financing of up to \$3,068,000, at an interest rate of 3.40%, to complete the construction project. Once the construction project is complete, the agreement further states the U.S. Department of Agriculture acting through RD will provide a permanent loan commitment up to \$3,068,000 to retire the interim financing by the District by issuing revenue bond, Series 2017.

The following is a summary of changes in short-term debt as of December 31, 2018:

December 31,	2018		
Balance, January 1 Increases Decreases	\$ 1,436,229 840,307		
Balance, December 31	\$ 2,276,536		

NOTE 6: LONG-TERM DEBT

Long-term debt consists of the following:

December 31,	2018
Revenue bonds, payable in annual principal installments, plus	
interest at 4.125%, maturing in January 2045	\$ 938,000
Revenue bonds, payable in annual principal installments, plus	
interest at 4.125%, maturing in January 2048	1,611,500
Revenue bonds, payable in annual principal installments, plus	
interest at 3.00%, maturing in January 2050	921,500
Revenue bonds, payable in annual principal installments, plus	
interest at 2.875%, maturing in August 2033	1,605,000
	5,076,000
Less: current portion	(173,000)
	\$ 4,903,000

NOTE 6: LONG-TERM DEBT (CONTINUED)

Maturities of long-term debt are as follows for the year ended December 31:

				٦	Total Debt
Year	Principal		Interest		Service
2019	\$	173,000	\$ 182,400	\$	355,400
2020		181,000	176,615		357,615
2021		183,500	170,572		354,072
2022		190,500	164,442		354,942
2023		193,000	158,075		351,075
2024-2028		1,049,500	687,634		1,737,134
2029-2033		893,500	510,858		1,404,358
2034-2038		614,000	372,706		986,706
2039-2043		747,000	240,614		987,614
2044-2048		721,500	88,843		810,343
2049-2051		129,500	10,515		140,015
	\$	5,076,000	\$ 2,763,274	\$	7,839,274

Activity in long-term debt is as follows:

December 31, 2018

	Ве	eginning of						
		Year Increases		Decreases		End of Year		
Revenue bonds	\$	5,241,500	\$	-	\$	165,500	\$	5,076,000
	\$	5,241,500	\$	-	\$	165,500	\$	5,076,000

The District has pledged future water customer revenues, net of specified operating expenses, to repay \$5,076,000 in water system Revenue Bonds Series 2005,2008,2011,2012 and \$2,276,536 of interim borrowings on Revenue Bonds Series 2017. Proceeds from the borrowings provided financing for the construction of the utility plant. The bonds are payable solely from water customer net revenues and are payable through 2056. The total principal and interest remaining to be paid on the bonds is \$10,115,810. Principal and interest paid for the current year and total customer net revenues were \$343,526 and \$2,465,900 respectively.

NOTE 7: WATER AGREEMENT

The District has entered into a water purchase contract with the Logan/Todd Regional Water Commission, whereas the contract requires the Commission to provide water to the District and the rates the District will be charged for the expected water usage are defined therein. The contract will extend for a term of 50 years beginning January 1, 2003. The agreement may be renewed or extended for such term or terms as may be agreed upon by the Commission and the District. Under terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing water from the Commission in March 2003; therefore, the Commission is the sole provider of water to the District. The agreement does require the District to purchase minimum levels of water from the Commission. If minimum levels are not met, the Commission may charge the District for the shortages. At December 31, 2018 minimum levels have been met.

NOTE 8: EMPLOYEES' RETIREMENT PLANS

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan Description

The District contributes to the Non-Hazardous CERS plan, a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the plan. CERS is administered by the Board of Trustees of the Kentucky Retirement System. CERS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, Cost of Living Adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011.

Tier 1 - Non-Hazardous Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Benefits Provided (Continued)

- Tier 2 Non-Hazardous Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute a total of 6% of their annual creditable compensation, while 1% of these contributions are deposited in an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420 Employees administrative duties). These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.
- Tier 3 Non-Hazardous Tier 3 plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund (401(h) account) which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Trustees 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. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Contributions

Employers participating in the CERS were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the KRS Board of Trustees on the basis of an annual valuation last preceding the July 1 of a new biennium. The KRS Board of Trustees may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board of Trustees. For the fiscal year ended June 30, 2018, participating employers contributed 16.22% of each employee's creditable compensation. The actuarially determined rate set by the KRS Board of Trustees for the fiscal years June 30, 2018 was 16.22%.

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

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

At December 31, 2018, the District reported a liability of \$855,871 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net pension liability was based on the District's share of 2018 contributions to the pension plan relative to the 2018 contributions of all participating employers, actuarially determined. At June 30, 2018 the District's proportion was 0.014053%.

For the year ended December 31, 2018, the District recognized pension expense of \$164,898. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018			
	D	eferred	D	eferred
	Οu	itflows of	In	flows of
	Re	esources	Re	sources
Differences between expected and actual experience	\$	27,916	\$	12,528
Net difference between projected and actual investment earnings on pension plan investments		39,799		50,061
Change of assumptions		83,643		-
Changes in proportion and differences between employer contributions and proportionate share of contribution		42,957		-
District contributions subsequent to the measurement date		25,626		
Total	\$	219,941	\$	62,589

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

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

The \$25,626 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. As of December 31, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2019	94,174	
2020	49,502	
2021	(7,358)	
2022	(4,593)	
Thereafter	-	

Actuarial Assumptions

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

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

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

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. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Actuarial 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.

Long-Term Expected Rate of Return

The long-term expected rate of return was determined by using a building-block method in which bestestimate 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.

		Long-Term Expected
Asset Class	Target Allocation	Real Rate of Return
US Equity	17.5%	
US Large Cap	5.0%	4.50%
US Mid Cap	6.0%	4.50%
US Small Cap	6.5%	5.50%
Non US Equity	17.5%	
International Developed	12.5%	6.50%
Emerging Markets	5.0%	7.25%
Global Bonds	4.0%	3.00%
Credit Fixed	24.0%	
Global IG Credit	2.0%	3.75%
High Yield	7.0%	5.50%
EMD	5.0%	6.00%
Illiquid Private	10.0%	8.50%
Private Equity	10.0%	6.50%
Real Estate	5.0%	9.00%
Absolute Return	10.0%	5.00%
Real Return	10.0%	7.00%
Cash	2.0%	1.50%
Total	100.0%	6.09%

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% 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 KRS plan's CAFR.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

			(Current			
	1	% Decrease (5.25%)	_	count Rate (6.25%)	1% Increase (7.25%)		
District's proportionate share of	of the						
net pension liability	\$	1,077,452	\$	855,871	\$	670,224	

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS plan's CAFR.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the County Employees Retirement System's (CERS) OPEB Plan

Plan Description

The District's employees are provided OPEB under the provisions of Kentucky Revised Statues, the Kentucky Retirement Systems (KRS) board administers the CERS Insurance Fund. The CERS Insurance Fund is a cost sharing, multiple employer defined benefit OPEB plan which provides group health insurance benefits for plan members that are all regular full-time members employed in non-hazardous duty positions of the District. OPEB may be extended to beneficiaries of the plan members under certain circumstances. The CERS Insurance Fund is included in a publicly available financial report that can be obtained at www.kyret.ky.gov.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Benefits Provided

The CERS Insurance Fund provides hospital and medical benefits to eligible plan members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Premium payments are submitted to DEI. The KRS board contracts with Humana to provide health care benefits to the eligible Medicare retirees. The CERS Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Contributions

Employers participating in the CERS Insurance Fund contribute a percentage of each employee's creditable compensation. The actuarially determined rates set by the KRS board is a percentage of each employee's creditable compensation. For the year ended June 30, 2018, the required contribution was 5.26%, of each employee's covered payroll. Contributions from the District to the CERS Insurance Fund for the year ended December 31, 2018, were \$16,593. The KRS board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS board. Employees qualifying as Tier 2 or Tier 3 of the CERS plan members contribute 1% of creditable compensation to an account created for the payment of health insurance benefits.

Implicit Subsidy

The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

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

At December 31, 2018, the District reported a liability of \$249,508 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net OPEB liability was based on the District's share of 2018 contributions to the OPEB plan relative to the 2018 contributions as of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was 0.014053%.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

For the year ended December 31, 2018, the District recognized OPEB expense of approximately \$32,586.

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Ou	eferred tflows of sources	Inf	eferred flows of sources
Difference between expected and actual experience	\$	-	\$	29,077
Net difference between projected and actual investment earnings on OPEB plan investments		-		17,186
Change of assumptions		49,830		576
Changes in proportion and differences between employer contriutions and proportionate share of contribution		4,643		517
District contributions subsequent to the measurement date		8,297		
Total	\$	62,770	\$	47,356

For the year ended December 31, 2018, \$8,297 was reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
	-
2019	1,643
2020	1,643
2021	1,643
2022	4,981
2023	(1,415)
Thereafter	(1,379)

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Actuarial Assumptions

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

Inflation2.30%Payroll Growth Rate2.00%Salary Increase3.05%, averageInvestment Rate of Return6.25%

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.

Healthcare Trend Rates (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 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.

Long-Term Expected Rate of Return

The long-term expected rate of return was determined by using a building-block method in which bestestimate 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.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.5%	
US Large Cap	5.0%	4.50%
US Mid Cap	6.0%	4.50%
US Small Cap	6.5%	5.50%
Non US Equity	17.5%	
International Developed	12.5%	6.50%
Emerging Markets	5.0%	7.25%
Global Bonds	4.0%	3.00%
Credit Fixed	24.0%	
Global IG Credit	2.0%	3.75%
High Yield	7.0%	5.50%
EMD	5.0%	6.00%
Illiquid Private	10.0%	8.50%
Private Equity	10.0%	6.50%
Real Estate	5.0%	9.00%
Absolute Return	10.0%	5.00%
Real Return	10.0%	7.00%
Cash	2.0%	1.50%
Total	100.0%	6.09%

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 a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.85%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	Current						
		1% Decrease (4.85%)		Discount Rate (5.85%)		1% Increase (6.85%)	
District's proportionate share of the							
collective net OPEB liability	\$	324,071	\$	249,508	\$	185,994	

Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1%	Decrease	Rate	1% Increase		
District's proportionate share of the						
collective net OPEB liability	\$	185,761	\$ 249,508	\$	324,647	

OPEB Plan Fiduciary Net Position

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

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, unemployment insurance, errors and omissions, property and general liability coverage, the District participates in the Kentucky Association of Counties (KACo) insurance fund. This public entity risk pool operates as a common risk management and insurance program for political subdivisions in the State of Kentucky. The District, along with other participating entities, contributes annual premiums determined by KACo. The amount of the premium is based on actuarial evaluations, rating plans and other analyses of the amounts necessary for the payment of claims. If, in the opinion of KACo's Board, the assets of the Trust are insufficient to enable the Trust to discharge its legal liabilities and other obligations and to maintain required reserves, the Trust's Board may require certain participating members to contribute supplementary contributions. The District is not aware of any additional assessments payable to the Trust to cover claims. The District's claims are submitted to and paid by KACo. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years.

NOTE 11: SUBSEQUENT EVENTS

The District issued Revenue Bonds from the USDA/RD on June 26, 2019 in the amount of \$3,210,000 for the funding of a construction project.

Todd County Water District
A Component Unit of Todd County, Kentucky
Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of the District's Contributions
County Employee Retirement System

Schedule of the District's Proportionate Share of the Net Pension Liability - CERS

As of December 31,		2018		2017	2016	2015
District's proportion of the net pension liability		0.014053%		0.013655%	0.012075%	0.011961%
District's proportionate share of the net pension liability	\$	855,871	\$	799,269	\$ 594,539	\$ 514,262
District's covered payroll	\$	348,307	\$	332,266	\$ 288,056	\$ 279,064
District's proportionate share of the net pension liability as a						
percentage of its covered payroll		245.72%		240.55%	206.40%	184.28%
Plan fiduciary net position as a percentage of the total pension						
liability		53.54%		53.30%	55.50%	59.97%
Schedule of Distric	ct's Cor	ntribution - CE	RS			
For the Year Ended December 31,		2018		2017	2016	2015
Contractually required contribution	\$	51,145	\$	48,505	\$ 40,238	\$ 36,211
Contributions in relation to the contractually required						
contribution		51,145		48,505	40,238	36,211
Contribution deficiency (excess)	\$	-	\$	-	\$ -	\$ -
District's covered payroll (1)	\$	334,252	\$	341,178	\$ 303,889	\$ 286,477
Contributions as a percentage of covered payroll		15.30%		14.22%	13.24%	12.64%

⁽¹⁾ The amount presented was determined as of the calendar year end that accrued within the fiscal year.

Todd County Water District
A Component Unit of Todd County, Kentucky
Schedule of the District's Proportionate Share of the Net Pension Liability and
Schedule of the District's Contributions
County Employee Retirement System

Changes of Benefit Terms

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

2018: No changes in benefit terms.

2017: No changes in benefit terms.

2016: No changes in benefit terms.

2015: No changes in benefit terms.

Changes of Assumptions

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

2018: 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. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

2017: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS. However, subsequent to the actual valuation date (June 30, 2016), but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total Pension Liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the non-hazardous system and the assumed rate of return is 6.25% for the non-hazardous system.

2016: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS. However, subsequent to the actual valuation date (June 30, 2016), but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total Pension Liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the non-hazardous system and the assumed rate of return is 6.25% for the non-hazardous system.

2015: No changes in assumptions.

Todd County Water District
A Component Unit of Todd County, Kentucky
Schedule of the District's Proportionate Share of the Collective
Net OPEB Liability and Schedule of District's Contributions –
County Employees Retirement System

Schedule of District's Proportionate Share of the Collective Net OPEB Liability - CERS

As of December 31,		2018				
District's proportion of the net OPEB liability		0.014053%				
District's proportionate share of the net OPEB liability	\$	249,508				
District's covered - employee payroll	\$	348,307				
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		71.63%				
Plan fiduciary net position as a percentage of the total OPEB liability		57.62%				
Schedule of District Contributions - CERS						
For the year ended December 31,		2018				
Contractually required contribution	\$	16,593				
Contributions in relation to the contractually required contribution		16,593				
Contribution deficiency (excess)	\$	-				
District's covered-employee payroll	\$	334,252				
Contributions as a percentage of covered-employee payroll		4.96%				

Todd County Water District
A Component Unit of Todd County, Kentucky
Schedule of the District's Proportionate Share of the Collective
Net OPEB Liability and Schedule of District's Contributions –
County Employees Retirement System

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

Changes of Benefit Terms

2018: No changes of benefit terms (other than the blended discount rate used to calculate the total OPEB liability).

Changes of Assumptions

2018: During the 2018 legislative session, House Bill 185 was enacted, which update 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 the updated benefit provisions.

Todd County Water District A Component Unit of Todd County, Kentucky Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

		Pass-Through			
Federal Grantor	Federal	Entity	Passed		
Pass-Through Grantor	CFDA	Identifying	Through to	To	tal
Program Title	Number	Number	Subrecipients	Federal Ex	penditures
U.S. Department of Agriculture					
Passed-Through Kentucky Rural Development:					
Water and Waste Disposal Systems for Rural Communities	10.760	-	-	\$	790,118
Total U.S. Department of Agriculture					790,118
Total Expenditures of Federal Awards	10.760			\$	790,118

Todd County Water District A Component Unit of Todd County, Kentucky Notes to the Schedule of Expenditures of Federal Awards

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Todd County Water District (the "District") under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3: SUBRECIPIENTS

There were no subrecipients during the fiscal year.

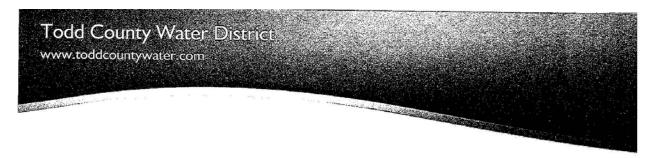
NOTE 4: LOANS AND LOAN GUARANTEES

The District did not have any loans or loan guarantee programs required to be reported on the schedule.

NOTE 5: INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Todd County Water District A Component Unit of Todd County, Kentucky Summary Schedule of Prior Audit Findings



2017-001 General Ledger

Criteria and Condition: During our audit procedures, we noted instances in which the general ledger was not being maintained appropriately, leading to several audit adjustments in the areas of cash, construction in progress, accounts payable, debt and revenue. The majority of these instances related to improper recording of the Water and Waste Disposal program loan money received, which is an infrequent transaction in occurrence. Also, cash reconciliations were not being performed for the Regions bank account and one cash account relating to the construction project was not on the District's general ledger.

Recommendation: We recommend current procedures be reviewed and that internal control procedures are implemented, including monitoring and recording infrequent transactions. We also recommend that the Regions bank accounts be reconciled quarterly and all cash accounts be recorded on the District's general ledger.

Current Status: The bank reconciliation recommendation was adopted on June 25, 2018. The finding over general ledger maintenance will be repeated in the current year audit.

P O Box 520 2201 New Highway 68 West Elkton, Kentucky 42220



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*

Commissioners
Todd County Water District
Elkton, Kentucky

Carr, Riggs & Ingram, LLC

922 State Street, Suite 100 Bowling Green, Kentucky 42101 PO Box 104 Bowling Green, Kentucky 42102-0104 (270) 782-0700 (270) 782-0932 (fax)

167 South Main Street Russellville, Kentucky 42276 (270) 726-7151 (270) 726-3155 (fax)

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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 Todd County Water District (the "District"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 28, 2019.

Internal Control over Financial Reporting

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

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

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

deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-002.

Todd County Water District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, LLC Bowling Green, Kentucky

Can, Rigge & Ingram, L.L.C.

August 28, 2019





Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Commissioners Todd County Water District Elkton, Kentucky

Bowling Green, Kentucky 42101 PO Box 104 Bowling Green, Kentucky 42102-0104 (270) 782-0700

(270) 782-0932 (fax) 167 South Main Street

Russellville, Kentucky 42276

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Report on Compliance for Each Major Federal Program

We have audited Todd County Water District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2018. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awarads applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal* Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-003, that we consider to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, LLC Bowling Green, Kentucky

Can, Rigge & Ingram, L.L.C.

August 28, 2019

Todd County Water District Schedule of Findings and Questioned Costs

Section I — Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on prepared in accordance with GAAP:			statemen	ts audited were
Internal control over financial report	ting:			
Material weakness(es) identifie	d?		☐ Yes	☑ No
Significant deficiency(ies) identi	fied?		☑ Yes	☐ None reported
Noncompliance material to financial statements noted?			☑ Yes	□No
Federal Awards				
Internal control over major program	s:			
Material weakness(es) identifie	d?		☐ Yes	☑ No
Significant deficiency(ies) identi	fied?		☑ Yes	☐ None reported
Type of auditors' report issued on co for major programs: unmodified	omplianc	e		
Any audit findings disclosed that are to be reported in accordance with U Guidance (2 CFR 200.516(a))?	•	d	☑ Yes	☐ None reported
Identification of major federal programs:				
CFDA Numbers	N	ame of Federa or Clust	•	n
10.760		and Waste Di for Rural Com	-	stems
Dollar threshold used to distinguish between type A and type B programs:	\$750,00	00		
Auditee qualified as low-risk auditee?	□ Yes	☑ No		

Todd County Water District A Component Unit of Todd County, Kentucky Schedule of Findings and Questioned Costs

Section II — Financial Statement Findings

2018-001 General Ledger

Criteria and Condition: During our audit procedures, we noted instances in which the general ledger was not being maintained appropriately, leading to several audit adjustments in the areas of cash, fixed assets, construction in progress, accounts payable, debt, revenue, and expenses. Per 2 CFR 200.510(b), management is responsible for preparation of the Schedule of Expenditures of Federal Awards, which was based on the general ledger and required adjustment.

Cause: Certain internal controls were not in place to prevent or detect and correct misstatements.

Effect: Misstatements could be left undetected and uncorrected in the financial statements and Schedule of Expenditures of Federal Awards (SEFA).

Recommendation: We recommend current procedures be reviewed and that internal control procedures over monthly general ledger maintenance be strengthened, including monitoring and recording infrequent transactions to ensure the accuracy of the financial statements and the SEFA.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding, see corrective action plan.

2018-002 Cash Deposits

Criteria and Condition: At December 31, 2018, we noted the District's bank balance contained \$198,524 of cash deposits that were uncollateralized and uninsured. Kentucky Revised Statues require the District's bank balance to be fully insured and collateralized.

Cause: Internal controls were not in place to monitor cash deposits to determine that cash deposits at banks are properly collateralized and insured.

Effect: Cash deposits at banks could be at risk in excess of the amount that is collateralized and insured.

Recommendation: We recommend current procedures be reviewed and that internal control procedures are implemented, including monitoring cash and investment balances to ensure that they are properly collateralized and insured.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding, see corrective action plan.

Todd County Water District A Component Unit of Todd County, Kentucky Schedule of Findings and Questioned Costs

Section III — Federal Award Findings and Questioned Costs

U.S DEPARTMENT OF AGRICULTURE
Passed-Through Kentucky Rural Development

2018-003 Water and Waste Disposal Systems for Rural Communities – CFDA 10.760 Grant period – Year ended December 31, 2018

Condition: During our audit procedures, we noted internal controls were not designed to ensure written policies relating to federal awards as required by 2 CFR 200, Subparts D & E of the Uniform Guidance were properly developed and implemented. The District did not have the required written policies in accordance with CFR 200.302(b)(6), CFR 200.302(b)(7), 200.319(c)(1), 200.319(c)(2), and CFR 200.319(c)(1).

Criteria: Written policies should be in place related to federal awards as required by 2 CFR 200, Subparts D & E of the Uniform Guidance.

Cause: The District did not design internal controls over federal cost principles to ensure written policies related to the Uniform Guidance were developed and implemented.

Effect: The District is not compliant with 2 CFR 200, Subparts D & E of the Uniform Guidance and increases risk over noncompliance of the District's federal programs relating to unallowable cost.

Questioned Costs: No questioned costs were incurred from this finding.

Context: The District's internal controls over federal program need to be reviewed to ensure written policies related to federal awards as required by 2 CFR 200, Subparts D & E of the Uniform Guidance are properly developed and implemented.

Recommendation: The District should review internal controls over the federal programs relating to 2 CFR 200, Subparts D & E of the Uniform Guidance so written policies are established and compliance is maintained in the federal programs in accordance with CFR 200.302(b)(6), CFR 200.302(b)(7), 200.319(c)(1), 200.319(c)(2), and CFR 200.319(c)(1).

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and the recommended procedures have been implemented.

Todd County Water District A Component Unit of Todd County, Kentucky Corrective Action Plan



2018-001 General Ledger

Criteria and Condition: During our audit procedures, we noted instances in which the general ledger was not being maintained appropriately, leading to several audit adjustments in the areas of cash, fixed assets, construction in progress, accounts payable, debt, revenue, and expenses.

Cause: Certain internal controls were not in place to prevent or detect and correct misstatements.

Effect: Misstatements could be left undetected and uncorrected in the financial statements and Schedule of Expenditures of Federal Awards (SEFA).

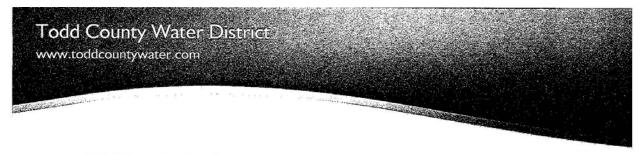
Recommendation: We recommend current procedures be reviewed and that internal control procedures over monthly general ledger maintenance be strengthened, including monitoring and recording infrequent transactions to ensure the accuracy of the financial statements and the SEFA.

Actions Taken: Todd County Water District accepts the recommendation and will do additional training.

Corrective action is anticipated to be completed by fiscal year end December 31, 2019 with oversight directed by Carla Moody, office manager.

P O Box 520 2201 New Highway 68 West Elkton, Kentucky 42220

Todd County Water District A Component Unit of Todd County, Kentucky Corrective Action Plan



2018-002 Cash Deposits

Criteria and Condition: At December 31, 2018, we noted the District's bank balance contained \$198,524 of cash deposits that were uncollateralized and uninsured. Kentucky Revised Statues require the District's bank balance to be fully insured and collateralized.

Cause: Internal controls were not in place to monitor cash deposits to determine that cash deposits at banks are properly collateralized and insured.

Effect: Cash deposits at banks could be at risk in excess of the amount that is collateralized and insured.

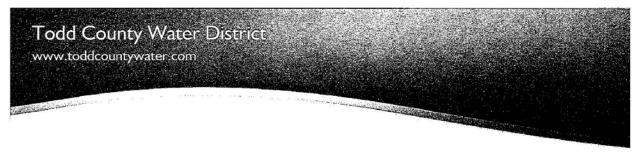
Recommendation: We recommend current procedures be reviewed and that internal control procedures are implemented, including monitoring cash and investment balances to ensure that they are properly collateralized and insured.

Actions Taken: Todd County Water District accepts the recommendation and will do additional training.

Corrective action is anticipated to be completed by fiscal year end December 31, 2019 with oversight directed by Carla Moody, office manager.

P O Box 520 2201 New Highway 68 West Elkton, Kentucky 42220

Todd County Water District A Component Unit of Todd County, Kentucky Corrective Action Plan



U.S DEPARTMENT OF AGRICULTURE
Passed-Through Kentucky Rural Development

2018-003

Water and Waste Disposal Systems for Rural Communities – CFDA 10.760 Grant period – Year ended December 31, 2018

Condition: During our audit procedures, we noted internal controls were not designed to ensure written policies relating to federal awards as required by 2 CFR 200, Subparts D & E of the Uniform Guidance were properly developed and implemented. The District did not have the required written policies in accordance with CFR 200.302(b)(6), CFR 200.302(b)(7), 200.319(c)(1), 200.319(c)(2), and CFR 200.319(c)(1).

Criteria: Written policies should be in place related to federal awards as required by 2 CFR 200, Subparts D & E of the Uniform Guidance.

Cause: The District did not design internal controls over federal cost principles to ensure written policies related to the Uniform Guidance were developed and implemented.

Effect: The District is not compliant with 2 CFR 200, Subparts D & E of the Uniform Guidance and increases risk over noncompliance of the District's federal programs relating to unallowable cost.

Questioned Costs: No questioned costs were incurred from this finding.

Context: The District's internal controls over federal program need to be reviewed to ensure written policies related to federal awards as required by 2 CFR 200, Subparts D & E of the Uniform Guidance are properly developed and implemented.

Recommendation: The District should review internal controls over the federal programs relating to 2 CFR 200, Subparts D & E of the Uniform Guidance so written policies are established and compliance is maintained in the federal programs in accordance with CFR 200.302(b)(6), CFR 200.302(b)(7), 200.319(c)(1), 200.319(c)(2), and CFR 200.319(c)(1).

Actions Taken: Todd County Water District accepts the recommendation and will do additional training.

Corrective action is anticipated to be completed by fiscal year end December 31, 2019 with oversight directed by Carla Moody, office manager.

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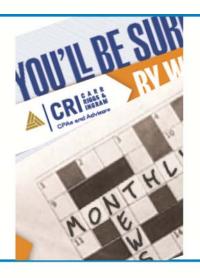
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