GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
GARRISON, KENTUCKY

AUDITED FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
GARRISON, KENTUCKY
Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners

Garrison-Quincy-KY-O-Heights Water District, Kentucky

Garrison, Kentucky

We have audited the accompanying financial statements of the business-type activities of Garrison-Quincy-KY-O-Heights Water District, Kentucky as of and for the year ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Garrison-Quincy-KY-O-Heights Water District, Kentucky, as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information
The schedule of the District's proportionate share of net pension liability and schedule of District contributions are the responsibility of management and were 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 the District's proportionate shard of net pension liability and schedule of District contributions are 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 November 15, 2019, on our consideration of the Garrison-Quincy-KY-O-Heights Water District, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garrison-Quincy-KY-O-Heights Water District, Kentucky's internal control over financial reporting and compliance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriated operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

November 15, 2019

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
DECEMBER 31,

	2018	2017
ASSETS & DEFERRED OUTFLOWS		
Current Assets		
Cash	$ 14,378	$ 14,969
Accounts receivable		
Customers, net	90,599	79,293
Other		
Unbilled Receivables	28,392	28,392
Prepaid expenses	6,112	6,112
Inventory	23,514	24,861
	162,996	153,627
Restricted Assets		
Cash	143,964	188,483
	143,964	188,483
Fixed Assets		
Property, Plant & Equipment	12,019,551	11,978,551
Less accumulated depreciation	(2,953,659)	(2,775,079)
Construction-in-progress	-	-
	9,065,892	9,203,472
Deferred Outflow of Resources		
Deferred Outflow of Resources-OPEB	48,410	-
Deferred Outflow of Resources-Pension	158,270	86,943
	206,680	86,943
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 9,579,532	$ 9,632,525
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	$ 21,759	$ 12,908
Accrued wages and Benefits	3,277	3,277
Deferred Compensation	615	610
Compensated Absences	16,272	16,272
Customer deposits	9,228	9,207
Accrued Retirement	5,063	4,172
Taxes payable	2,551	2,345
Accrued interest payable	23,462	26,783
Current Portion of bonds payable	69,505	69,288
Total Current Liabilities	151,732	144,862
Noncurrent Liabilities		
Accrued OPEB Liabilities	181,192	-
Accrued Pension Liabilities	527,599	479,531
Bonds payable, net	1,826,925	1,896,430
Total Long-term Liabilities	2,535,716	2,375,961
Deferred Inflow of Resources		
Deferred Inflow of Resources-OPEB	924	-
Deferred Inflow of Resources-Pension	34,681	-
	35,605	-
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	2,723,053	2,520,823
Net Position		
Investment in Capital Assets, Net of Related Debt	7,169,462	7,237,754
Restricted Net Assets	143,964	188,483
Unrestricted Net Assets	(456,947)	(314,534)
TOTAL NET POSITION	$ 6,856,479	$ 7,111,702

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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
PROPRIETARY FUND
for the years ended December 31,

	2018	2017
OPERATING INCOME		
Water sales	$ 555,050	$ 567,653
Sewer sales	141,305	148,488
Other revenue	22,865	22,985
Total operating income	719,220	739,126
OPERATING EXPENSES		
Water Expenses		
Advertising Expense	-	-
Bad Debt Expense	-	-
Bank Charges	762	417
Chemicals & Salt	12,914	12,914
Commissioners Salaries	6,720	3,960
Continuing Education	652	1,212
Dues and Subscriptions	3,596	2,422
Health Insurance	21,000	21,000
Materials and Supplies	39,508	47,926
Miscellaneous	2,798	10,121
Office Supplies	9,305	7,336
Outside Services	9,874	33,830
Other Utilities	4,056	2,658
Payroll Taxes	17,949	18,458
Phone	5,070	4,805
Postage	5,402	6,810
Professional Fees	14,082	10,769
Insurance	14,274	15,335
Repairs and Maintenance	4,777	25,000
Retirement	59,841	120,444
Salaries	177,601	176,376
Electric	38,038	39,870
Vehicle Expense	7,290	9,595
Water Purchased	40,578	36,764
Total Water Expenses	496,086	608,022
Sewer Expenses		
Electric	19,385	20,967
Materials and Supplies	32,867	21,317
Phone	1,381	1,201
Postage	2,315	872
Testing	11,799	9,530
Miscellanous	699	275
Repairs and Maintenance	-	4,973
Truck Expense	-	-
Salaries and Wages	52,549	55,698
Total Sewer Expenses	120,994	114,833
Total operating expense	617,080	722,854
Operating income before depreciation	102,140	16,272
Depreciation expense-Water	(101,433)	(102,337)
Depreciation expense-Sewer	(77,147)	(77,665)
Total Depreciation Expense	(178,580)	(180,002)
OPERATING INCOME (LOSS)	(76,440)	(163,730)
Non-operating income (Expenses)		
Gain (Loss) on disposal of assets	-	-
Bond Interest Reimbursement	5,186	6,194
Interest income	199	209
Interest expense	(52,424)	(54,260)
Total Non-Operating Income (Expense)	(47,039)	(47,857)
CHANGE IN NET POSITION	(123,480)	(211,587)
NET POSITION, BEGINNING OF YEAR	6,979,959	7,323,291
NET POSITION, END OF YEAR	$ 6,856,479	$ 7,111,702

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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
for the years ended December 31,

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	$ 707,914	$ 716,141
Payments to Suppliers	(343,893)	(398,367)
Payments to Employees	(230,149)	(236,034)
Other Receipts (Payments)	22,865	22,985
Net Cash (Used) Provided by Operating Activities	156,737	104,725
CASH FLOW FROM INVESTING ACTIVITIES		
Reserve Funds	(44,519)	(16,803)
Interest Income	199	209
Net Cash (Used) Provided by Investing Activities	(44,320)	(16,594)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	-	-
Principal Paid on Capital Debt	(69,288)	(65,973)
Purchases of Capital Assets	(41,000)	(13,787)
Bond Interest Reimbursement	5,186	6,194
Interest Paid on Capital Debt	(52,424)	(54,260)
Net cash (Used) Provided by Financing Activities	(157,526)	(127,826)
NET INCREASE (DECREASE) IN CASH	(45,110)	(39,695)
Cash and Cash Equivalents - At beginning of year	203,452	243,148
CASH AND CASH EQUIVALENTS - AT END OF YEAR	$ 158,342	$ 203,452
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	$ (76,440)	$ (163,730)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	178,580	180,002
Change in Assets and Liabilities:		
Accounts Receivable, Net	(11,306)	(6,411)
Inventories	(1,347)	4,692
Prepaid Expense	(0)	-
Accounts Payable and Other Payables	67,230	89,906
Customer Deposits	21	26
Accrued Wages and Vacation	0	241
Net Cash Provided (Used) by Operating Activities	$ 156,737	$ 104,725

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

NOTE 1: ORGANIZATION AND ACCOUNTING POLICIES

The Garrison-Quincy-KY-O-Heights Water District was created and organized as a public body corporate in Garrison-Quincy-KY-O-Heights, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Garrison-Quincy-KY-O-Heights Fiscal Court to operate a water distribution system and wastewater services. The District is regulated by the Kentucky Public Service Commission.

The Reporting Entity
The District, for financial purposes, includes all of the funds relevant to the operation of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Garrison-Quincy-KY-O-Heights Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds
Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (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.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources management focus. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Note 1: ORGANIZATION AND ACCOUNTING POLICIES

Basis of Accounting

The District maintains its accounting records on the accrual basis during the year. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is maintained at lower of cost or market.

Utility Plant

Utility Plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation

Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates on a straight-line basis determined by reference to Utility Standards Rates (NARUC). The provisions for depreciation in 2018 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statement includes no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of 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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Net Position
Net position represents the difference between assets and liabilities in the statement of net assets. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: RESTRICTIONS ON CASH

Restricted Cash Accounts

A. Customer Deposit Account
The District is required to maintain special deposit accounts for customer deposits.

B. Capital Equipment Account
The Capital Equipment Account is being maintained for the purposes of purchasing and maintaining equipment. The District deposits $2,000 per month into the account.

C. Debt Service Reserve Accounts
Deposits into bond and Interest Sinking Fund Account are required to be made monthly in order to accumulate funds for payment of bond principle and interest. The KIA (Kentucky Infrastructure Authority) Loan Account is being maintained for the purposes of accounting for principal and interest payments on the KIA Loan.

D. Depreciation Reserve
The Depreciation Reserve Accounts are being maintained as required in various bond documents. The District was required to deposit $280 per month into these accounts. The District had a total of $35,803 in these accounts for the purpose of maintaining the water system. The required balance at December 31, 2018 is $44,773. This reserve was underfunded by $8,970.

NOTE 2: RESTRICTIONS ON CASH (Continued)

The following is a listing of restricted cash accounts of the District:

Customer Deposit Account	$ 9,228
Capital Equipment Account	12,188
Debt Service Accounts:	
Bond Sinking Fund Account	72,213
KIA Account Loan Account	14,532
Depreciation Reserve:	
Depreciation Account	5,038
Sewer Depreciation Account	8,828
Certificates of Deposit-	
Replacement Reserves	0
Depreciation Fund	21,937
Total Restricted Cash Accounts	$ 143,964

NOTE 3: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that is the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does have a deposit policy for custodial credit risk. As of December 31, 2018. $0 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank $0

NOTE 4: COMPENSATED ABSENCES

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

In recognition of the resulting obligation, the District has accrued a liability for earned but unused vacation leave and accrued compensation time, having determined that payment of such compensation is probable and having developed a reasonable estimate based upon current salary costs, annual leave, and compensation time amounts as of December 31, 2018. The liability for compensated absences at December 31, 2018 was $16,272.

NOTE 5: LONG-TERM DEBT

A. Waterworks Revenue Series A and Series B 1987

On April 22, 1987, the District entered into an agreement with Rural Development to issue $300,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvements to the existing waterworks system of the District. The Waterworks System Bond Issue consisted of Series A and B bonds.

Series A was issued in the amount of $250,000 and Series B, in the amount of $50,000. Semiannual interest payments at a rate of 6.375% for Series A and 5.875% for Series B are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2018 the principal balance outstanding was $127,000 on Series A and $22,700 on Series B. Debt Service requirements for year ending December 31, 2018, and thereafter is as follows:

Waterworks Revenue Bond Series A 1987:

Year Ended December 31	Principal	Interest and Fees
2019	10,000	7,778
2020	11,000	7,108
2021	12,000	6,375
2022	13,000	5,578
2023	14,000	4,718
2024	15,000	3,793
2025	16,000	2,805
2026	17,000	1,753
2027	19,000	606
	127,000	40,513

NOTE 5: LONG-TERM DEBT (Continued)

Waterworks Revenue Bond Series B 1987:

Year Ended December 31	Principal	Interest and Fees
2019	2,000	1,275
2020	2,100	1,154
2021	2,200	1,028
2022	2,300	896
2023	2,500	755
2024	2,600	605
2025	2,800	447
2026	3,000	276
2027	3,200	94
	22,700	6,530

B. Waterworks Revenue Series 1996

On August 5, 1996, the District entered into an agreement with Rural Development to issue $295,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January1. As of December 31, 2018, the principal balance outstanding was $199,500. Debt Service requirements for year ending December 31, 2018, and thereafter is as follows:

Waterworks Revenue Series 1996

Year Ended December 31	Principal	Interest and Fees
2019	7,500	8,809
2020	7,500	8,471
2021	8,000	8,123
2022	8,500	7,751
2023	8,500	7,369
2024-2028	50,500	30,386
2029-2033	63,000	17,708
2034-2036	46,000	3,128
	199,500	91,744

C. Waterworks Revenue Series 2002

On June 3, 2002, the District entered into an agreement with Rural Development to issue $356,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction extensions, additions, and improvements to the existing waterworks system of the District.

Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2018, the principal balance outstanding was $285,000. Debt Service requirements for year ending December 31, 2018, and thereafter is as follows:

Waterworks Revenue Series 2002

Year Ended December 31	Principal	Interest and Fees
2019	7,000	12,668
2020	7,000	12,353
2021	8,000	12,015
2022	8,000	11,655
2023	8,000	11,295
2024-2028	47,000	50,423
2029-2033	59,000	38,588
2034-2038	73,000	23,828
2039-2042	68,000	6,075
	285,000	178,898

D. Waterworks Revenue Series 2010

On May 10, 2010, the District entered into an agreement with Rural Development to issue $798,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District. Semiannual interest payments at a rate of 2.25% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2018, the principal balance outstanding was $703,500. Debt Service requirements for year ending December 31, 2018, and thereafter is as follows:

Waterworks Revenue Series 2010

Year Ended December 31		Principal	Interest and Fees
2019		15,000	15,660
2020		15,500	15,317
2021		16,000	14,963
2022		16,000	14,603
2023		16,500	14,237
2024-2028		90,000	65,306
2029-2033		102,500	54,478
2034-2038		116,500	42,193
2039-2043		132,500	28,198
2044-2048		151,000	12,285
2049-2049		32,000	360
	$	703,500	277,600

E. KIA Assistance Loan

On April 1, 2015, the District entered into construction loan agreement with the Kentucky Infrastructure Authority (KIA) to finance upgrades to be made to the District's processing plant in the amount of $821,721. The loan also included principal forgiveness in the amount of $205,430 to be given the first two years of the agreement. Semiannual principal and interest payments are required beginning June 1, 2017. Interest is calculated at a rate of .75% for the term of the loan. As of December 31, 2018, the principal balance outstanding was $558,730.

KIA Assistance Loan

Year Ended December 31	Principal	Interest and Fees
2019	29,105	5,515
2020	29,324	5,223
2021	29,544	4,929
2022	29,766	4,633
2023	29,990	4,335
2024-2028	153,463	17,123
2029-2033	159,212	9,324
2034-2036	98,327	1,728
	558,731	52,811

F. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
Proprietary Activities:					
Revenue Bonds	1,378,100	-	40,400	1,337,700	40,400
Loans Payable	587,618	-	28,888	558,730	29,105
Proprietary Activities					
Long-Term Liabilities	1,965,718	-	69,288	1,896,430	69,505

NOTE 6: DEFINED BENEFIT PENSION PLAN

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

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

Contributions - For the year ended June 30, 2018, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers 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 Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with

NOTE 6: DEFINED BENEFIT PENSION PLAN (CONTINUED)

actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% of each employee's wages. The contributions are allocated to both the pension and insurance trusts. Plan members contributed 14.48% to the pension trust for non-hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended December 31, 2018, the District contributed $31,021, or 100% of the required contribution. The contribution was allocated $30,611 to the CERS pension fund and $410 to the CERS insurance fund.

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

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87+
	Reduced retirement	Not available

NOTE 6: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At December 31, 2018, the District reported a liability for its proportionate share of the net pension liability of $527,559. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2017 was .009013 percent, which was an increase of .00073 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $59,841. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows Resources
Differences between expected and actual results	$ 654	$ 13,392
Changes of assumptions	97,349	
Net difference between projected and actual earnings on Plan investments	6,525	
Changes in proportion and differences between District . contributions and proportionate share of contributions	7,246	21,289
District contributions subsequent to the measurement date	46,496	
Total	$ 158,270	$ 34,681

The $59,841 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows ofresources will be recognized in pension expense as follows:

Year ending June 30,	
2019	$ 37,408
2020	$ 33,021
2021	$ 13,440
2022	$ (6,774)

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

NOTE 6: DEFINED BENEFIT PENSION PLAN (continued)

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

3.05%, average, including inflation

6.25%, net of Plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long –Term Nominal Real Rate of Return
U.S. Equity	26.5%	11.27%
Non-U.S. Equity	26.5%	2.83%
Fixed Income	12.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	2.0%	3.65%
	100%	

NOTE 6: DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate - The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26- year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

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

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.25%	$ 665,366
Current discount rate	6.25%	$ 527,559
1% increase	7.25%	$ 412,284

Payable to the Pension Plan - At December 31, 2018, the District reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2018, of which $0 was allocated to the CERS pension fund. The payable includes only the pension contribution allocation.

NOTE 7: Postemployment Benefits Other Than Pensions (OPEB)

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

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

For the year ended December 31, 2018, the District contributed $10,379, or 100% of the required contribution.

Benefits - CERS provides health insurance benefits to Plan employees and beneficiaries. For retirement purposes, employees are grouped into three tiers based on hire date:

NOTE 7: Postemployment Benefits Other Than Pensions (OPEB)

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

NOTE 7: Postemployment Benefits Other Than Pensions (OPEB)

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources-At December 31, 2018, the District reported a liability for its proportionate share of the net OPEB liability of $181,192. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2017 was .009013%.

For the year ended December 31, 2018, the District recognized OPEB expense of $10,379. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of of Resources	Deferred Inflows Resources
Differences between expected andactualresults	$	$ 503
Changes of assumptions	39,426	
_Net difference between projected and actual earnings on Plan investments	8,563	0
Changes in proportion and differences between District contributions and proportionate share of contributions	421	421
District contributions subsequent to the measurement date	0	
Total	$ 48,410	$ 924

The $0 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. This includes an adjustment of $2,333 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,		
2019	$	5,151
2020	$	5,151
2021	$	5,151
2022	$	5,151
2023	$	7,292
2024	$	2,042

NOTE 7: Postemployment Benefits Other Than Pensions (OPEB)

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

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

Pre - 65: Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Post - 65: Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

NOTE 7: Postemployment Benefits Other Than Pensions (OPEB)

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

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
U.S Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	2.0%	2.69%
Total-	100%	

Discount Rate- The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. 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.

NOTE 7: Postemployment Benefits Other Than Pensions (OPEB)

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

	Discount rate	District's proportionate share of net OPEB liability
1% decrease	4.84%	$ 230,557
Current discount rate	5.84%	$ 181,192
1% increase	6.84%	$ 140,113

NOTE 7: Postemployment Benefits Other Than Pensions (OPEB)

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

	District's proportionate share of net OPEB liability
1% decrease	$ 138,984
Current trend rate	$ 181,192
1% increase	$ 236,061

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

Payable to the Pension Plan - At December 31, 2018, the District reported a payable of $0 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2018. The payable includes only the insurance contribution allocation.

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. The District is a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

NOTE 9: CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

Primary Government:	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Proprietary Activities:				
Capital Assets Not Being Depreciated:				
Land & Easements - Water Distribution	$ 261,788	$	$	$ 261,788
Land & Easements - Sewer Processing	50,000			50,000
Construction In Progress				
Total Capital Assets Not Being Depreciated	311,788			311,788
Capital Assets, Being Depreciated:				
Buildings - Water Distribution	380,866			380,866
Buildings - Sewer Processing	1,150,000			1,150,000
Wells, Springs, & Reservoirs	1,001,151			1,001,151
Pumping Equipment	170,069			170,069
Transmission & Distribution	4,178,483	41,000		4,219,483
Water Treatment	542,810			542,810
Sewer Lines	4,100,000			4,100,000
Vehicles & Heavy Equipment	113,229			113,229
Office, Tools, & Other Equipment	30,155			30,155
Total Capital Assets Being Depreciated	11,666,763	41,000		11,707,763
Less Accumulated Depreciation For:				
Buildings - Water Distribution	(230,901)	(8,310)		(239,211)
Buildings - Sewer Processing	(161,000)	(23,000)		(184,000)
Wells, Springs, & Reservoirs	(110,874)	(22,248)		(133,122)
Pumping Equipment	(167,282)	(279)		(167,561)
Transmission & Distribution	(1,064,747)	(64,915)		(1,129,663)
Water Treatment	(542,810)			(542,810)
Sewer Lines	(382,663)	(54,667)		(437,330)
Vehicles & Heavy Equipment	(93,292)	(4,269)		(97,561)
Office, Tools, & Other Equipment	(21,511)	(892)		(22,403)
Total Accumulated Depreciation	(2,775,080)	(178,580)		(2,953,660)
Total Capital Assets, Being Depreciated, Net	8,891,683	(137,580)		8,754,103
Proprietary Activities Capital Assets, Net	$ 9,203,471	$ (137,580)	$ 0	$ 9,065,891

Proprietary Activities:

Proprietary Activities	178,580
Total Depreciation Expense - Proprietary Activities	$ 178,580

NOTE 11: SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of this report and nothing came to attention that should be disclosed.

NOTE 12 – RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No.75

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

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

Net position, at beginning of year	$7,111,702
Beginning net OPEB liability	(131,743)
Net position, at beginning of year, as restated	$6,979,959

REQUIRED SUPPLEMENTAL INFORMATION

GARRISON-QUINCY-KY-O-HEIGHTS WATERDISTRICT

REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Four Fiscal Years

	2018	2017	2016	2015
District's proportion of the net pension liability	0.009013%	0.009739%	0.00974%	0.00938%
District's proportionate share of the net pension liability (asset)	$ 527,559	$ 479,531	$403,216	$ 294,000
District's covered employee payroll	$ 226,292	$ 229,556	$ 232,145	$234,905
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	233.13%	208.90%	173.69%	125.16%
Plan fiduciary net position as a percentage of the total pension liability	1299.66%	1483.05%	1816.22%	2501.99%

Notes:
There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:
The assumed investment rate of return was decreased from 7.5% to 6.25%.
The assumed rate of inflation was reduced from 3.5% to 2.3%.
Payroll growth assumption was reduced from 4% to 2%.

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

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

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

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

GARRISON-QUINCY-KY-O-HEIGHTS WATERDISTRICT

REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS- PENSION
Last Five Fiscal Years

	2018	2017	2016	2015	2014
Contractually required employer contribution	$ 30,611	$ 27,670	$ 27,898	$ 28,000	$ 28,566
Contributions relative to contractually required employer contribution	30,611	27,670	27,898	28,000	28,566
Contribution deficiency (excess)	$ -	$ -	$ -	$	$
District's covered employee payroll	$ 226,292	$ 229,556	$ 232,145	$ 234,905	$ 234,662
Employer contributions as a percentage of covered-employee payroll	13.53%	12.05%	12.01%	11.91%	12.17%

Notes:
There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:
The assumed investment rate of return was decreased from 7.5% to 6.25%.
The assumed rate of inflation was reduced from 3.5% to 2.3%.
Payroll growth assumption was reduced from 4% to 2%.

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

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

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

GARRISON-QUINCY-KY-O-HEIGHTS WATERDISTRICT

REQUIRED SUPPLEMENTARY SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

Last Two Fiscal Years

	2018	2017
District's proportion of the net OPEB liability	0.009013%	0.00%
District's proportionate share of the net OPEB liability (asset)	$ 181,192	$ 142,122
District's covered employee payroll	$ 226,292	$ 229,556
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	80.07%	61.91%
Plan fiduciary net position as a percentage of the total pension liability	3784.09%	unavailable

Notes:·

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.
The assumed rate of inflation was reduced from 3.5% to 2.3%.
Payroll growth assumption was reduced from 4% to 2%.

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

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

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

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

REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - OPEB
Last Five Fiscal Years

	2018	2017	2016	2015	2014
Contractually required employer contribution	$ 10,379	$ 10,302	$ 9,884	$ 9,988	$ 9,200
Contributions relative to contractually required employer contribution	10,379	10,302	9,884	9,988	9,200
Contribution deficiency (excess)	$ -	$	$		
District's covered employee payroll	$ 226,292	$ 229,556	$ 232,145	$ 234,905	$ 234,662
Employer contributions as a percentage of covered-employee payroll	4.58%	4.48%	4.25%	4.25%	3.92%

Notes:
There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:
The assumed investment rate of return was decreased from 7.5% to 6.25%.
The assumed rate of inflation was reduced from 3.5% to 2.3%.
Payroll growth assumption was reduced from 4% to 2%.

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

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

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

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

To the Board of Commissioners
GARRISON-QUINCY-KY-O-HEIGHTS Water District
Garrison, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of GARRISON-QUINCY-KY-O-HEIGHTS Water District as of and for the year ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the GARRISON-QUINCY-KY-O-HEIGHTS Water District, Kentucky's basic financial statements and have issued our report thereon dated November 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GARRISON-QUINCY-KY-O-HEIGHTS Water District, Kentucky'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GARRISON-QUINCY-KY-O-HEIGHTS Water District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the GARRISON-QUINCY-KY-O-HEIGHTS Water District, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. (2018-1)

Compliance and Other Matters

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

Purpose of this Report

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

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky
November 15, 2019

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
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ACCOUNTANT'S REPORT ON MANAGEMENT POINTS

Board of Commissioners
Garrison-Quincy-KY-O-Heights Water District
Garrison, Kentucky

In planning and performing my audit of the basic financial statements of GARRISON-QUINCY-KY-O-HEIGHTS Water District for the year ended December 31, 2018, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated November 15, 2019, on the financial statements of the GARRISON-QUINCY-KY-O-HEIGHTS Water District.

I will review the status of these comments and suggestions with various Water District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Donna J. Hendrix, CPA

DONNA J. HENDRIX, CPA, PSC
Morehead, Kentucky

November 15, 2019

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2018

PRIOR YEAR AUDIT FINDINGS AND RESPONSES

2017-1 The District Does Not Have A Process To Collect Outstanding Accounts Receivable Balances And To Determine When Accounts Receivable Accounts Should Be Written Off (SIGNIFICANT DEFICIENCY)

Status: This issue has not been resolved and will be repeated on Current Year Points as 2018-1.

2017-2 Monthly Meeting Minutes Lacks Detail

Status: This issue has not been resolved and will be repeated on Current Year Points as 2018-2.

2017-3 Monthly Bank Statement Review and Approval By Board

Status: This issue has not been resolved and will be repeated on Current Year Points as 2018-3.

2017-4 Board Approvals of Invoices

Status: This issue has not been resolved and will be repeated on Current Year Points as 2018-4.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT, KENTUCKY
MANAGEMENT POINTS, RECOMMENDATIONS AND RESPONSES
Year Ended December 31, 2018

Current year Management Points

2018-1 Lack of a Policy for collecting outstanding Accounts Receivable Balances **(SIGNIFICANT DEFICIENCY)**

Condition:	The District does not have a policy for collecting outstanding accounts receivables and a policy to determine when such accounts should be written off.
Recommendation:	The Board should implement a new policy for collecting outstanding accounts receivables and a policy to determine when such accounts should be written off.
Response:	The Board will implement new policy immediately.

2018-2 Monthly Meeting Minutes Lacks Detail

Condition:	While reviewing the monthly meeting minutes I discovered they were not detailed enough to get information of what went on during the year.
Recommendation:	The monthly meeting minutes should be much more detailed when written up.
Response:	The Board will begin this new procedure at the next meeting.

2018-3 Monthly Bank Statement Review and Approval By Board

Condition:	I discovered that the monthly bank statement is not being reviewed and approved.
Recommendation:	I recommend having the Treasurer or a Board member to review, sign and date the monthly bank statement. This will enhance internal controls.
Response:	All monthly bank statements will be reviewed monthly.

2018-4 Board Approvals of Invoices

Condition:	I discovered during testing of disbursements that when the Board signs checks, they are not reviewing the invoices at the same time they are signing the Accounts Payable checks.
Recommendation:	The Board should be reviewing each invoice at the same time they are signing each Accounts payable check.
Response:	The Board will implement this new procedure immediately.