INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2018

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# INDEPENDENT AUDITOR'S REPORT

Board of Commissioners Meade County Water District Brandenburg, Kentucky

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

We have audited the accompanying financial statements of Meade County Water District as of and for the year ended December 31, 2018, and the related notes to the financial statements, as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

#### Opinion

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

#### **Emphasis of a Matter**

#### Adoption of Accounting Standards

As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the District adopted Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement 85, *Omnibus 2017*, and Statement 86, *Certain Debt Extinguishment Issues*. 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 to 8, schedule of proportionate share of the net pension and OPEB liabilities on pages 28 and 29 and schedule of contributions on pages 30 and 31 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 Meade County Water District's basic financial statements. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules I and II 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 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, Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Schedule III has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2019, on our consideration of Meade County Water District's internal control over financial reporting and 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 the results of that testing, and not to provide an opinion on the 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 Meade County Water District's internal control over financial reporting and compliance.

# Stile, Carter + associates, CPas, P.S.C.

Elizabethtown, Kentucky September 6, 2019

# **REQUIRED SUPPLEMENTARY INFORMATION**

#### MEADE COUNTY WATER DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED DECEMBER 31, 2018

The discussion and analysis of Meade County Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2018. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

#### **FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$960 thousand. The balance at December 31, 2017, was \$424 thousand. This reflects a \$536 thousand increase in cash during the year.
- The District invested approximately \$1.8 million in capital assets during the year.
- The District issued \$2 million in bonds during the year.

#### **USING THIS ANNUAL REPORT**

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; and notes to the basic financial statements.

The **statement of net position** presents the financial position of the District on a full accrual historical cost basis. The statement presents information on all of the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses, and changes in fund net position* presents the results of the District's activities over the course of the fiscal year and information as to how the net position changed during the 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 the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The *statement of cash flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the basic financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

#### ENTITY-WIDE FINANCIAL ANAYLSIS

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 exceeded liabilities and deferred inflows by \$10.3 million and \$10.3 million as of December 31, 2018 and 2017.

The largest portion of the District's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, equipment, transmission and distribution systems and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

#### (Table 1) Summary of Net Position as of December 31, 2018 and 2017

		2018		2017
Assets	•	0 500 000		1 000 000
Current and Other Assets	\$	2,528,860	\$	5 1,639,330
Captial Assets		14,504,514		13,391,274
Total Assets		17,033,374	_	15,030,604
Deferred Outflows of Resources		238,140		272,838
Liabilities				
Long-term Liabilities		6,168,093		4,259,176
Other Liabilities		588,225		551,271
Total Liabilities		6,756,318	_	4,810,447
Deferred Inflows of Resources		179,425		123,571
Net Position				
Net investment in capital assets		9,264,280		9,762,613
Restricted		790,681		254,339
Unrestricted		280,812		352,472
Total Net Position	\$	10,335,773	\$	10,369,424

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), decreased by \$71 thousand at December 31, 2018. Restricted net position increased \$536 thousand. Net investment in capital assets decreased by \$498 thousand.

#### (Table 2) Changes in Net Position Years Ending December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES: Water sales	\$ 2,405,194	\$ 2,178,596
TOTAL OPERATING REVENUES	2,405,194	2,178,596
OPERATING EXPENSES:		
Water purchased	792,073	674,707
Power purchased	39,744	37,000
Meter labor and expense	433,161	448,477
Repairs and maintenance	44,318	26,214
General and adminstrative expense	436,240	440,196
Depreciation	635,761	576,885
TOTAL OPERATING EXPENSES	2,381,297	2,203,479
OPERATING INCOME	23,897	(24,883)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	1,187	1,181
Other income	18,248	86
Interest expense on long-term debt	(137,593)	(116,471)
TOTAL NON-OPERATING (EXPENSES)	(118,158)	(115,204)
CAPITAL CONTRIBUTIONS	60,610	78,173
CHANGE IN NET POSITION	(33,651)	(61,914)
NET POSITION, beginning of year	10,369,424	10,431,338
NET POSITION, end of year	\$ 10,335,773	\$ 10,369,424

Operating revenue increased 9.5% as compared to the prior year as new customers were added. Total operating expenses increased by 8.7%. Interest expense on long-term debt increased by 18.1%.

#### **Capital Assets and Debt Administration**

#### **Capital Assets**

At December 31, 2018 and 2017, the District had \$14.5 million and \$13.4 million invested in a variety of capital assets, as reflected in the following table:

#### (Table 3) Capital Assets (Net of Depreciation) as of December 31, 2018 and 2017

	2018	2017
Non-Depreciable Assets: Land Construction in process	\$ 75,043	\$ 75,043 75,753
Depreciable Assets: Plant and equipment, net of depreciation	 14,429,471	 13,240,478
Total capitals, net of depreciation	\$ 14,504,514	\$ 13,391,274

#### (Table 4)

#### Changes in Capital Assets Years Ended December 31, 2018 and 2017

		2018		2017
Beginning Balance	\$	13,391,274	\$	13,029,976
Additions		1,749,001		938,183
Retirements				-
Depreciation	-	(635,761)	_	(576,885)
Ending Balance	\$	14,504,514	\$	13,391,274

#### Debt

At December 31, 2018 and 2017, the District had \$4.5 million and \$2.6 million in revenue bonds outstanding and \$700 thousand and \$1.04 million of notes payable. A total of \$318 thousand is due within the 2019 calendar year. During 2018, the District issued \$2,000,000 in bonds. The final payment is due in 2056.

#### (Table 5) Outstanding Debt as of December 31, 2018 and 2017

	2018		2017
Revenue bonds	\$ 4,504,000	\$	2,588,500
Notes payable	751,868		1,044,998
Unamortized discount premium	 (14,114)	S	(4,835)
Total	\$ 5,241,754	\$	3,628,663

#### **District Challenges for the Future**

The District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent.

The District will continue to use careful planning and monitoring of finances to provide quality services to its customers.

#### **Contacting the District's Financial Management**

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Tim Gossett, General Manager, 1003 Armory Road, Brandenburg, Kentucky 40108 or (270) 422-5006.

#### STATEMENT OF NET POSITION

### DECEMBER 31, 2018

#### ASSETS

CURRENT ASSETS: Cash and cash equivalents Accounts receivable, net Unbilled receivables Prepaid insurance Materials and supplies	\$	169,442 129,863 112,201 13,356 67,509
TOTAL CURRENT ASSETS		492,371
NONCURRENT ASSETS: Restricted cash and cash equivalents Regulatory asset- CERS OPEB Regulatory asset- CERS Pension Non-depreciable capital assets Depreciable capital assets, net of accumulated depreciation		790,681 944,336 301,472 75,043 14,429,471
TOTAL NONCURRENT ASSETS		16,541,003
TOTAL ASSETS		17,033,374
DEFERRED OUTFLOWS OF RESOURCES CERS- Pension CERS- OPEB	-	179,335 58,805 238,140
LIABILITIES		
CURRENT LIABILITIES: Accounts payable Payroll and other taxes payable Accrued vacation Accrued interest Other accrued liabilities Customer deposits Notes and bonds payable		19,276 10,997 38,007 76,348 4,328 62,603 317,754
TOTAL CURRENT LIABILITIES		529,313
NONCURRENT LIABILITIES: Net pension liability- CERS Net OPEB liability- CERS Notes and bonds payable TOTAL NONCURRENT LIABILITIES		1,010,077 294,446 4,922,480 6,227,003
TOTAL LIABILITIES		
TOTAL LIABILITIES	<del></del>	6,756,316
DEFERRED INFLOWS OF RESOURCES CERS- Pension CERS- OPEB		113,594 65,831 179,425
NET POSITION		179,420
Net investment in capital assets Restricted net position Unrestricted	<u></u>	9,264,280 790,681 280,812
TOTAL NET POSITION	\$	10,335,773

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

# STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

#### YEAR ENDED DECEMBER 31, 2018

OPERATING REVENUES: Water sales	\$ 2,405,194
TOTAL OPERATING REVENUES	2,405,194
OPERATING EXPENSES: Water purchased Power purchased Meter labor and expense Repairs and maintenance General and administrative expenses Depreciation	792,073 39,744 433,161 44,318 436,240 635,761
TOTAL OPERATING EXPENSES	 2,381,297
OPERATING INCOME	23,897
NON-OPERATING REVENUES (EXPENSES): Interest income Other income Interest expense on long-term debt	 1,187 18,248 (137,593)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(118,158)
CAPITAL CONTRIBUTIONS	 60,610
CHANGE IN NET POSITION	(33,651)
NET POSITION, beginning of year	 10,369,424
NET POSITION, end of year	\$ 10,335,773

The accompanying notes are integral part of these financial statements.

#### STATEMENT OF CASH FLOWS

#### YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES: Receipts from customers	\$	2,417,533
Payments to suppliers		(1,105,760)
Payments to employees		(600,285)
NET CASH PROVIDED BY OPERATING ACTIVITIES		711,488
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt		(377,630)
Proceeds from new loans Acquisition and construction of capital assets		2,000,000 (1,758,163)
Other income		18,248
Capital contributions		60,610
Interest on long-term debt		(137,593)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(194,528)
		(194,020)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income		1,187
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	1,187
NET INCREASE IN CASH AND CASH EQUIVALENTS		518,147
CASH AND CASH EQUIVALENTS, beginning of year		441,975
CASH AND CASH EQUIVALENTS and of your	¢	060 122
CASH AND CASH EQUIVALENTS, end of year	\$	960,122
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED		
BY OPERATING ACTIVITIES:		
Operating income	\$	23,897
Adjustments to reconcile net operating income to net		
cash provided by operating activities:		005 704
Depreciation Decrease in accounts receivable		635,761 12,339
Decrease in unbilled receivables		4,170
Decrease in accounts payable		(2,620)
Increase in customer deposits		9,732
Increase in accrued interest		26,755
Increase in other accrued liabilities		1,325
Increase in accrued vacation		129
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	711,488

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

NOTES TO FINANCIAL STATEMENTS

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - Meade County Water District was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Meade County, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

#### A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

#### B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

#### C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. FINANCIAL STATEMENT AMOUNTS

- Accounts Receivable The allowance method is used to record uncollectible accounts. At December 31, 2018, accounts receivable was stated net of an allowance for uncollectible accounts of \$24,373. Bad debt expense for each of the years ended December 31, 2018 was \$-0-. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
- 2. Materials and Supplies Materials and supplies are composed of items used for the construction of capital projects.
- Restricted Assets Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.
- 4. Capital assets Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>rears</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-75
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-40

- 5. Amortization Bond discounts and premiums are being amortized using the straight-line method over the life of each respective bond issue.
- Cash Equivalents For purposes of the statement of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
- 7. Compensation for Future Absences Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.
- 8. Claims and Judgments These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.
- 9. Revenues and Rate Structure Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

(Continued next page)

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Capital Contributions Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
- 11. Long-term obligations are reported at face value, net of applicable premiums and discounts.
- 12. Defining Operating Revenues and Expenses The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.
- 13. Use of Restricted Resources When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.
- 14. Net Position Net position is divided into three components:

a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.

b. Restricted net position – consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.

- c. Unrestricted all other net position is reported in this category.
- 15. Use of Estimates The preparation of financial assets in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. Pension and OPEB – For purposes of measuring the net pension and OPEB liabilities, deferred outflows/inflows of resources, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB. Accordingly, the District recognizes the actuarially determined contribution as the current year pension expense and OPEB.

17. Impact of Recently Issued Accounting Principles

#### Recently Issued and Adopted Accounting Principles

In June 2015, the GASB issued Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and required a restatement of the District's financial statements.

In March 2017, the GASB issued Statement 85, Omnibus 2017. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the District's financial statements.

In May 2017, the GASB issued Statement 86, Certain Debt Extinguishment Issues. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the District's financial statements.

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Recently Issued Accounting Pronouncements

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. This statement is effective for periods beginning after December 15, 2020. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

#### NOTE 2 - DEPOSITS

*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 or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2018 \$576,033 of the District's bank balance of \$963,014 was exposed to custodial credit risk. At December 31, 2018, \$-0- of the amount exposed to custodial risk were not collateralized. The remaining amount was collateralized by securities held by the pledging financial institution.

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

# NOTE 3 - RESTRICTED CASH

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2018:

Restricted For	December 31, 2018	
Customer Deposits	\$	13,854
Construction		441,760
Debt Service		157,437
Reserve & Depreciation		80,492
	\$	693,543

### NOTE 4 – <u>CAPITAL ASSETS</u>

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2018, is summarized as follows:

		ance 1/2017	1	Additions	Reti	rements	_	alance 31/2018
Non-depreciable assets	\$ 1	50,796	\$	-	\$	(75,753)	\$	75,043
Capital assets being depreciated Total accumulated depreciation		339,288 98,810)		1,824,754 (635,761)		-		,664,042 ,234,571)
Total capital assets being depreciated, net	13,2	240,478		1,188,993		-	14	,429,471
Capital assets, net	\$ 13,3	15,521	\$	1,264,746	\$	(75,753)	\$14	,504,514

During the year ended December 31, 2018, the District capitalized \$27,284 of interest.

#### NOTES TO FINANCIAL STATEMENTS

#### **DECEMBER 31, 2018**

#### NOTE 5 - LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

	Notes and Bonds Payable			Sinking Fund		
Year		Principal		Interest	Requ	irements
2019	\$	318,990	\$	176,385	\$	495,375
2020		187,621		171,262		358,883
2021		194,954		163,804		358,758
2022		198,341		156,007		354,348
2023		201,286		147,267		348,553
2024-2028		742,890		661,761		1,404,651
2029-2033		622,286		532,635		1,154,921
2034-2038		565,000		427,762		992,762
2039-2043		683,000		317,236		1,000,236
2044-2048		825,500		182,140		1,007,640
2049-2053		473,000		61,160		534,160
2054-2056		243,000		10,134		253,134
Total	\$	5,255,868	\$	3,007,553	\$	8,263,421

Changes in long-term obligations during the year ended December 31, 2018 were:

	Balance 2/31/2017		Additions	eductions		Balance 2/31/2018		Due Within Dne Year
Bonds and notes payable:		-		 	-		-	
Revenue Bonds Payable	\$ 2,588,500	\$	2,000,000	\$ (84,500)	\$	4,504,000	\$	111,500
Notes Payable	1,044,998		-	(293,130)		751,868		207,490
Unamortized Issuance Costs	(4,835)		(10,244.00)	965		(14,114)		(1,236)
Total	\$ 3,628,663	\$	1,989,756	\$ (376,665)	\$	5,241,754	\$	317,754

Information relating to the outstanding bond and notes is summarized below:

Date of Issue	Interest Rate	ginal Amount Each Issue	Payab	ds and Notes le Oustanding nber 31, 2018
2001 Bond Series A	5.08%	\$ 605,000	\$	272,000
1992 Bond Payable	5.00%	415,000		223,000
KIA Bond Payable	4.68%	165,000		35,000
KIA Note Payable	3.00%	394,760		144,001
KIA Note Payable	3.00%	753,447		469,220
USDA Bond Payable	4.13%	2,150,000		1,974,000
Meade County Bank	0.99%	452,871		138,647
2018 Bond Series A	2.75%	2,000,000		2,000,000

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#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 6 - RETIREMENT PLAN

#### Plan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. CERS' report may be obtained at www.kyret.ky.gov.

#### **Benefits Provided**

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) 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. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

#### Contributions

For the calendar year ended December 31, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. 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 preceding 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 bases adopted by the Board. Plan members who began participating prior to September 1, 2008 are considered in the Tier 1 structure of benefits and plan members who began participating September 1, 2008 through December 31, 2013 are considered in the Tier 2 structure of benefits.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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 which is not credited to the member's account and is not refundable. The employer contributes a set percentage of the member's salary each month to their own account which is not credited to the member's account and is not refundable. 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.

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 6 - RETIREMENT PLAN (CONTINUED)

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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 which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. 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.

The District's contractually required contribution rate for the calendar year ended December 31, 2018, was 14.48 percent of creditable compensation from January 1 to June 30 and 16.22 percent of creditable compensation from July 1 to December 31. Contributions to the pension plan for the year ended December 31, 2018 from the District was \$62,878. At December 31, 2018, the District owed \$7,144 to the plan for employer and member contributions for December.

# 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 \$1,010,077 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 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, actuarially determined. At June 30, 2018, the District's proportion was 0.016584 percent, which was a decrease of .000622 percent from its proportion measured as of June 30, 2017.

For the years ended December 31, 2018, the District recognized pension expense of \$62,878. At December 31, 2018, the District reported its proportionate share of the CERS deferred outflows and inflows of resources related to pensions from the following sources:

	2018			
	[	Deferred	[	Deferred
	C	Dutflows		Inflows
	of F	Resources	of I	Resources
Differences between expected and actual economic experience	\$	32,946	\$	14,785
Changes in actuarial assumptions		98,714		-
Difference between projected and actual investment earnings		46,969		59,081
Changes in proportionate share of contributions		706		39,728
	\$	179,335	\$	113,594

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 6 - RETIREMENT PLAN (CONTINUED)

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year	Pension		
Ending	E	xpense	
December 31	Amount		
2019	\$	61,138	
2020		25,735	
2021	(15,711		
2022		(5,421)	
2023		-	
	\$	65,741	
	-		

The total pension liability in the June 30, 2018 actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions: Discount Rate Inflation Salary increases Investment rate of return	<ul> <li>6.25 percent</li> <li>2.30 percent</li> <li>3.05 percent, average, including inflation</li> <li>6.25 percent, net of pension plan investment expense, including inflation</li> </ul>

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 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 6 - RETIREMENT PLAN (CONTINUED)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term 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 timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Asset	Target	Long-Term Expected
Class	Allocation	Real Rate of Return
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Real Estate	10.00%	6.50%
Absolute Return	5.00%	9.00%
Real Return	10.00%	5.00%
Cash	10.00%	7.00%
	2.00%	1.50%
Total	100.00%	

#### Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 6 - RETIREMENT PLAN (CONTINUED)

# 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:

		Current		
		Discount	1%	
	1% Decrease	Rate	Increase	
	(5.25%)	(6.25%)	(7.25%)	
District's proportionate share of the net pension liablility	\$ 1,271,582	\$ 1,010,077	\$ 790,981	

#### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN

#### Plan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky and is a cost-sharing multiple-employer defined benefit plan. CERS provides other post-employment benefits to plan members and beneficiaries. The Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov.The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

#### Benefits Provided

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

#### Contributions

For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. 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 preceding 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 bases adopted by the Board.

The District's contractually required contribution rate for the calendar year ended December 31, 2018, was 4.70 percent of creditable compensation from January 1 to June 30 and 5.26 percent of creditable compensation from July 1 to December 31. Contributions to the OPEB plan from the District were \$19,856 for the period ended December 31, 2018. At December 31, 2018, the District owed \$2,256 to the plan for contributions for December.

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

At December 31, 2018, the District reported a liability of \$294,446 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 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 school districts, actuarially determined. At June 30, 2018, the District's proportion was .016584 percent, which was a decrease of .000623 percent from its proportion measured as of June 30, 2017.

For the years ended December 31, 2018, the District recognized OPEB expense of \$19,856. At December 31, 2018, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

		2018			
	D	eferred	C	Deferred	
	0	Outflows		Inflows	
	of R	esources	Of F	Resources	
Differences between expected and actual economic experience	\$	-	\$	34,314	
Changes in actuarial assumptions		58,805		680	
Difference between projected and actual investment earnings		-		20,282	
Changes in proportionate share of contributions		-		10,555	
	\$	58,805	\$	65,831	

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#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 7 - OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending December 31	E	Pension xpense Amount
2019 2020 2021 2022 2023 Thereafter	\$	(973) (973) (973) 2,966 (4,574) (2,499)
	\$	(7,026)

#### Actuarial assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05%, average
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65 Initia	al trend starting at 7.00% at January 1, 2020, and gradually
decr	easing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65 Initia	al trend starting at 5.00% at January 1, 2020, and gradually
decr	easing to an ultimate trend rate of 4.05% over a period of 10 years.
Municipal Bond Index Rate	3.62%
Discount Rate	5.85%

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

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

The long-term expected 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.

(Continued next page)

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

The projection of cash flows used to determine the discount rate of 5.85% 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.

# Sensitivity of The District's Proportionate Share of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.85, as well as what the District's proportionate share of the collective 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%	1%			
	Decrease	Rate	Increase		
	(4.85%)	(5.85%)	(6.85%)		
District's proportionate share of the net pension liablility	\$ 382,438	\$ 294,446	\$ 219,492		

# 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 were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	Current					
		1%	C	Discount	1%	
	Decrease		Rate		Increase	
District's proportionate share of the net pension liability	\$	219,218	\$	294,446	\$ 383,118	

<u>OPEB plan fiduciary net position</u> – Detailed information about the OPEB plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### NOTES TO FINANCIAL STATEMENTS

#### DECEMBER 31, 2018

#### NOTE 8 - CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the year ended December 31, 2018:

	Source	Amount					
Tap fees	сь :	\$	60,610				

#### NOTE 9 – 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; and natural disasters. The District was insured for workers' compensation, general liability coverage under a retrospectively rated commercial policy.

#### NOTE 10 - ECONOMIC DEPENDENCY

The District obtains a majority of its revenues from customers in Meade County, Kentucky. An economic downturn in the area could have a negative impact on the financial condition of the District.

#### NOTE 11 – ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

The District is subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulating entities. Accordingly, the District records these future economic benefits and obligations as regulatory assets and regulatory liabilities.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

- The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
- 2. The regulated rates must be designed to recover the specific entities cost of providing the regulated services;
- 3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that the rates set at levels that will recover the entities' cost can be charged to and collected from customers.

Based on the District's management evaluation of the three criteria discussed above in relation to its operations, and the effects of competition on its ability to recover its costs, the District believes that GASB Statement No. 62 continues to apply.

# **REQUIRED SUPPLEMENTARY INFORMATION**

#### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

December 31, 2018

Last 10 Years \*

	 2018	 2017	017 2016		2015	
Proportion of the net pension liability	0.165845%	0.017207%		0.018260%		0.018106%
Proportionate share of the net pension liability	\$ 1,010,077	\$ 1,007,179	\$	899,077	\$	778,456
Covered - employee payroll	\$ 429,772	\$ 448,477	\$	408,472	\$	396,057
Proportionate share of the net pension liability as percentage of covered payroll	235.0%	224.6%		220.1%		196.6%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%		55.50%		59.97%

\* Calendar year 2015 was the first year of implementation, therefore, only four years are shown.

# SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY

December 31, 2018

Last 10 Years \*

ų,

	 2018		
Proportion of the net OPEB liability	0.016584%		
Proportionate share of the net OPEB liability	\$ 294,441		
Covered - employee payroll	\$ 429,772		
Proportionate share of the net OPEB liability as percentage of covered payroll	68.5%		
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%		

\* Calendar year 2018 was the year of implementation, therefore, only one year is shown.

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

December 31, 2018

Last 10 Years \*

	2018		 2017	2016		2015	
Contractually required contribution (actuarially determined)	\$	62,878	\$ 58,442	\$	51,879	\$	54,057
Contribution in relation to the actuarially determined contributions		62,878	 58,442		51,879		54,057
Contribution deficiency (excess)	\$	18. 18.	\$ -	\$	-	\$	-
Covered employee payroll	\$	397,101	\$ 448,477	\$	408,472	\$	396,057
Contributions as a percentage of covered employee payroll		15.83%	13.03%		12.70%		13.65%

\* Calendar year 2015 was the first year of implementation, therefore, only four years are shown.

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

December 31, 2018

Last 10 Years \*

	 2018
Contractually required contribution (actuarially determined)	\$ 19,856
Contribution in relation to the actuarially determined contributions	 19,856
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 397,101
Contributions as a percentage of covered employee payroll	5.00%

\* Calendar year 2018 was the year of implementation, therefore, only one year is shown.

#### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2018

#### **CERS PENSION**

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2018.

#### 2015

The assumed investment rate of return was decreased from 7.75% to7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

### 2016 and 2017

No changes.

#### 2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%

#### **CERS OPEB**

Changes of benefit terms. There were no changes in benefit terms for 2018.

Changes of assumptions:

#### 2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

SUPPLEMENTARY INFORMATION

## SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTS

#### DECEMBER 31, 2018

1992 BOND PAYABLE 2001 SERIES A BOND PAYABLE

	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2019	38,000	9,749	13,000	13,738
2020	41,000	7,588	13,000	13,088
2021	44,000	5,270	14,000	12,425
2022	47,000	2,794	15,000	11,713
2023	49,000	211	16,000	10,095
2024	4,000	-	17,000	10,138
2025			18,000	9,275
2026			20,000	8,350
2027			20,000	7,350
2028			22,000	6,325
2029			23,000	5,213
2030			25,000	4,038
2031 2032			27,000	2,750
2032			29,000	975
2033				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				
2045				
2046				
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2050				
2051 2052				
2052				
2053				
2054				
2056_	¢ 000.000	¢ 05.040	¢ 070.000	¢ 44E 470
=	\$ 223,000	\$ 25,612	\$ 272,000	\$ 115,473

## SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTS

#### DECEMBER 31, 2018

KIA

### KIA BOND PAYABLE NOTE PAYABLE

_	PRINCIPAL	INTEREST		PRINCIPAL	INTEREST
2019	10,000	1,581		22,250	4,154
2020	10,000	1,137		22,922	3,482
2021	10,000	687		23,615	2,789
2022 2023	5,000	231		24,329	2,075
2023				25,064 25,821	1,340 582
2024				20,021	302
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038 2039					
2039					
2040					
2042					
2043					
2044					
2045					
2046					
2047					
2048					
2049					
2050 2051					
2051					
2052					
2053					
2054					
2056_	\$ 35,000	\$ 3,637		\$ 144,001	\$ 14,422
_	φ 35,000	φ 3,037	=	\$ 144,001	\$ 14,422

#### SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTS

## DECEMBER 31, 2018

KIA NOTE PAYABLE

## 2010 SERIES BOND PAYABLE

-	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2019	36,593	13,804	30,000	80,809
2020	37,699	12,698	31,500	79,540
2021	38,839	11,558	32,500	78,220
2022	40,012	10,384	34,000	76,849
2023	41,222	9,175	36,000	75,406
2024	42,468	7,930	37,500	73,890
2025	43,751	6,646	39,000	72,311
2026	45,074	5,323	41,000	70,661
2027	46,436	3,961	43,000	68,928
2028	47,840	2,558	45,000	67,114
2029	49,286	1,111	47,000	65,216
2030			49,000	63,236
2031			51,500	61,164
2032			54,000	58,988
2033			56,500	56,709
2034			59,000	54,327
2035			61,500	51,841
2036			64,500	49,242
2037			67,500	46,559
2038			70,500	43,674
2039			74,000	40,694
2040			77,500	37,569
2041			81,000	34,299
2042			84,500	30,885
2043			88,500	27,318
2044			92,500	23,584
2045			97,000	19,225
2046			101,500	15,581
2047			106,000	11,302
2048			111,000	6,827
2049			110,000	2,269
2050				
2051				
2052				
2053				
2054				
2055				
2056				
=	\$ 469,220	\$ 85,148	\$ 1,974,000	\$ 1,544,237

#### SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTS

#### DECEMBER 31, 2018

MEADE COUNTY BANK NOTE PAYABLE 2018 SERIES A BOND PAYABLE

	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2019	137,127	455	30,500	52,095
2020	,		31,500	53,728
2021			32,000	52,855
2022			33,000	51,961
2023			34,000	51,040
2024			35,000	50,091
2025			36,000	49,115
2026			37,000	48,111
2027			38,000	47,080
2028			39,000	46,021
2029			40,000	44,935
2030			41,000	43,821
2031			42,000	42,680
2032			43,500	41,504
2033			44,500	40,294
2034			46,000	39,050
2035			47,000	37,771
2036			48,500	36,458
2037			49,500	35,111
2038			51,000	33,729
2039			52,500	32,306
2040			54,000	30,841
2041			55,500	29,336
2042			57,000	27,789
2043			58,500	26,201
2044			60,000	24,571
2045			62,000	22,894
2046			63,500	21,168
2047			65,000	19,401
2048			67,000	17,586
2049			69,000	15,716
2050			70,500	13,798
2051			72,500	11,832
2052			74,500	9,811
2053			76,500	7,734
2054			79,000	5,596
2055			81,000	3,396
2056			83,000	1,141
20 13	\$ 137,127	\$ 455	\$ 2,000,000	\$ 1,218,569

## SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

#### YEAR ENDED DECEMBER 31, 2018

Retirement expense	\$ 82,734
Insurance - health	84,390
Auto expense	25,226
Office supplies and postage	6,513
Payroll expense	32,752
Other general and administrative	111,967
Insurance - general liability	19,591
Professional fees	28,964
Insurance - workmens' compensation	4,636
Commissioners' salaries	30,000
Regulatory commission expense & other taxes	4,558
Training	 4,909
	\$ 436,240

#### SCHEDULE III - ORGANIZATION DATA

#### DECEMBER 31, 2018

#### WATER COMMISSIONERS

Douglas Cornett – Chairman Allen Stivers – Treasurer Keith Boothe – Secretary Wesley Prather – Commissioner Mickey Chism – Commissioner

APPROVING BOND COUNSEL Rubin & Hays - Louisville, Kentucky

## CALENDAR YEAR

January 1 to December 31

# INTERNAL CONTROL AND FISCAL COMPLIANCE

#### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2018

FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE Waste and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 1,508,982
TOTAL U.S. DEPT. OF AGRICULTURE			\$ 1,508,982
TOTAL EXPENDITURES OF FEDERAL AWARI	DS		\$ 1,508,982

The accompanying notes are an integral part of this schedule.

#### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2018

#### NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Meade County Water 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 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 Meade County Water District, it is not intended to and does not present the financial position, changes in net position or cash flows of Meade County Water District.

#### NOTE B - 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 the 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 C – INDIRECT COST RATE

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

#### NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

#### MEADE COUNTY WATER DISTRICT Schedule of Findings and Questioned Costs For the Year Ended December 31, 2018

#### Section I- Summary of Auditor's Results

#### **Financial Statements**

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_X\_yes \_\_\_\_\_none reported
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_yes \_\_\_X\_none reported

Noncompliance material to financial statements noted? \_\_\_\_yes \_\_\_X\_\_no

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
   X yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_yes \_\_X\_\_none reported

Type of auditor's report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?\_\_\_X\_\_yes \_\_\_\_no

Identification of major programs:

	CFDA
Federal Program or Cluster	Number
Federal Program or Cluster	Number

10.760 Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish	
Between type A and type B programs:	\$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_yes \_\_\_X\_\_no

#### Section II – Financial Statement Findings

#### **REFERENCE NUMBER 2018-001 PREPARATION OF FINANCIAL STATEMENTS**

**Criteria:** The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

**Condition:** The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Cause: The District has financial personnel with limited financial reporting experience.

**Effect:** The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

**Recommendation:** We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Views of Responsible Officials and Planned Corrective Actions: The District has made strides in this area and is continuously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

#### REFERENCE NUMBER 2018-002 FINANCIAL STATEMENT PRESENTATION

**Criteria:** The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

**Condition:** As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Cause: The District has a limited number of personnel with limited financial reporting experience.

**Effect:** The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

**Recommendation:** We recommend District management and financial personnel increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

**Views of Responsible Officials and Planned Corrective Actions:** It would be beneficial to have financial training.

#### Section III – Federal Award Findings and Questioned Costs

#### **REFERENCE NUMBER 2018-003**

#### Waste and Waste Disposal Systems for Rural Communities – CFDA 10.760

#### Material Weakness – Written Procedures

**Criteria:** Part 200 of Title 2 of the U.S. Code of Federal Regulations titled, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, requires written procedures for payments, procurement, allowability of costs, compensation and travel costs when using federal funds.

Condition: The District's policies and procedures were not in accordance with federal requirements.

#### Questioned Costs: None.

Context: This was noted during a review of procedures.

Effect: The District could have not followed the Uniform Administrative Guidance

Cause: The District had not updated its procedures for the requirements.

Recommendation: The District should adopt the required procedures.

Views of Responsible Officials and Planned Corrective Actions: The District will implement the procedures.

#### SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

December 31, 2018

#### REFERENCE NUMBER 2017-001 PREPARATION OF FINANCIAL STATEMENTS

**Condition:** The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

**Recommendation:** We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Current Status: This finding was repeated as finding 2018-001 in the December 31, 2018 audit.

#### REFERENCE NUMBER 2017-002 FINANCIAL STATEMENT PRESENTATION

**Condition:** As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

**Recommendation:** We recommend District management and financial personnel increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Current Status: This finding was repeated as finding 2018-002 in the December 31, 2018 audit.



## STILES, CARTER & ASSOCIATES, CPAS, P.S.C.

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

Board of Commissioners Meade County Water District Brandenburg, 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 Meade County Water District, as of and for the year ended December 31, 2018, and have issued our report thereon dated September 6, 2019.

#### Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is 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 by governance. We considered the deficiencies described in items 2018-001, 2018-002 and 2018-003 in the accompanying schedule of findings and questioned cost to be material weaknesses.

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 were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002 and 2018-003 that we consider to be material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Meade County Water District's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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*.

#### Meade County Water District's Responses to Findings

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

#### Purpose of this Report

This report is intended 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

#### Stiles, Carter + associates, CPas, P.S.C.

Elizabethtown, Kentucky September 6, 2019



Chris R. Carter, CPA Ann M. Fisher, CPA Scott Kisselbaugh, CPA Philip A. Logsdon, CPA Brian S. Woosley, CPA

## STILES, CARTER & ASSOCIATES, CPAS, P.S.C.

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

Board of Commissioners Meade County Water District Brandenburg, 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 Meade County Water District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Meade County Water District's basic financial statements and have issued our report thereon dated September 6, 2019.

#### Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Meade County Water District'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*.

#### Meade County Water District Responses to Findings

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

#### Purpose of this Report

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

## Stiles, Carter + associates, CPas, P.S.C.

Elizabethtown, Kentucky September 6, 2019