

OHIO COUNTY WATER DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2018 and 2017

CONTENTS

	Page
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Financial Statements	
Statements of Net Position	7-8
Statements of Revenues, Expenses, and Changes in Net Position	9-10
Statements of Cash Flows	11-12
Notes to the Financial Statements	13-29
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability	30
Schedule of Pension Contributions	30
Schedule of Proportionate Share of the Net OPEB Liability	31
Schedule of OPEB Contributions	31
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32-33
Schedule of Findings and Responses	34

INDEPENDENT AUDITOR'S REPORT

Commissioners of the Ohio County Water District
Hartford, KY 42347

We have audited the accompanying financial statements of the Ohio County Water District (the "District") as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 and select pension/OPEB information on pages 28-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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

The financial statements of Ohio County Water District as of December 31, 2017 were audited by other auditors whose report dated August 17, 2018 expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2019, on our consideration of Ohio County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Ohio County Water District's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ohio County Water District's internal control over financial reporting and compliance.

Hensley & Throneberry, CPAs

September 19, 2019

**OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018 and 2017**

As management of the Ohio County Water District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the business-type activities for the fiscal years ended December 31, 2018 and 2017. The information contained in this Management Discussion and Analysis ("MD&A") should be considered in conjunction with the information contained in the Independent Auditor's Reports, Financial Statements, and supplementary information.

Financial Highlights

For the year ending December 31, 2018, total operating and non-operating revenues (including capital contributions) totaled \$4,002,385 and expenses amounted to \$4,331,324 creating a decrease in net position of \$328,939. At year end, net position totaled \$19,724,726 of which \$18,055,661 (net of related debt) was invested in capital assets and \$896,520 was restricted for debt service. This left a net amount of \$772,545 of unrestricted assets.

For the year ending December 31, 2017, total operating and non-operating revenues (including capital contributions) totaled \$4,297,262 and expenses amounted to \$4,364,090 creating a decrease in net position of \$66,828. At year end, net position totaled \$20,053,665 of which \$17,737,208 (net of related debt) was invested in capital assets and \$846,319 was restricted for debt service. This left a net amount of \$1,470,138 of unrestricted assets.

Overview of the Financial Statements

This report consists of MD&A and is intended to serve as an introduction to the financial statements. The financial statements include notes, which explain in detail some of the information included in the financial statements.

Required Financial Statements

The financial statements of the District report information using accounting methods similar to those used by private-sector companies. These statements offer short and long-term financial information about its activities. The Statements of Net Position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis of evaluation of the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure the results of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The final required financial statements are the Statements of Cash Flows. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting periods.

**OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018 and 2017**

Financial Analysis of Ohio County Water District

Ohio County Water District
Statements of Net Position-Summary
December 31,

	2018	2017
Assets		
Total current assets	\$ 1,100,001	\$ 1,003,652
Total restricted assets	3,423,174	3,742,554
Net capital assets	<u>30,206,017</u>	<u>30,266,452</u>
Total assets	<u>\$ 34,729,192</u>	<u>\$ 35,012,658</u>
Deferred outflows		
Pension deferred outflow	\$ 576,759	\$ 599,704
OPEB deferred outflow	<u>190,395</u>	<u>153,754</u>
Total deferred outflows	<u>\$ 767,154</u>	<u>\$ 753,458</u>
Liabilities		
Total current liabilities	\$ 1,102,849	\$ 979,549
Total long-term liabilities	<u>14,386,223</u>	<u>14,499,498</u>
Total liabilities	<u>\$ 15,489,072</u>	<u>\$ 15,479,047</u>
Deferred inflows		
Pension deferred inflow	\$ 163,833	\$ 196,554
OPEB deferred inflow	115,036	32,368
Bond premium	<u>3,679</u>	<u>4,482</u>
Total deferred outflows	<u>\$ 282,548</u>	<u>\$ 233,404</u>
Net position		
Invested in capital assets, net of related debt	\$ 18,055,661	\$ 17,737,208
Restricted for debt service	896,520	846,319
Unrestricted	<u>772,545</u>	<u>1,470,138</u>
Total net position	<u>\$ 19,724,726</u>	<u>\$ 20,053,665</u>

The largest portion (92% and 88% per year respectively) of the District's net position is reflected by investment in capital assets, less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to consumers; consequently, these assets are not available for future spending.

Restricted for debt service (5% and 4%, per year respectively) represents resources that are subject to external restrictions on how they may be used.

The balance (3% and 8%, per year respectively) of unrestricted net position may be used to meet the District's ongoing obligations to consumers and creditors.

**OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018 and 2017**

Ohio County Water District
Statements of Operations-Summary
For the Year Ended December 31,

	2018	2017
Total operating revenues	\$ 3,678,809	\$ 3,682,328
Total operating expenses	<u>(3,905,222)</u>	<u>(3,967,898)</u>
Operating loss	(226,413)	(285,570)
Total non-operating revenue / (expenses)	<u>(371,279)</u>	<u>(308,766)</u>
Loss before capital contributions	(597,692)	(594,336)
Capital contributed	<u>268,753</u>	<u>527,508</u>
Change in net position	(328,939)	(66,828)
Net position, beginning of year	<u>20,053,665</u>	<u>20,120,493</u>
Net position, end of year	<u>\$ 19,724,726</u>	<u>\$ 20,053,665</u>

For the year ending December 31, 2018, net position decreased by \$328,939 and consisted of an operating loss of \$226,413, net non-operating expenses of \$371,279, and capital contributions of \$268,753.

For the year ending December 31, 2017, net position decreased by \$66,828 and consisted of operating loss of \$285,570, net non-operating expenses of \$308,766, and capital contributions of \$527,508.

Capital Asset Changes

At December 31, 2018, the District had invested \$30,206,017 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$60,436 from the previous year. The net decrease consisted of additions to capital assets of \$1,088,850 and depreciation expense of \$1,149,286. The additions were financed with proceeds from capital contributions and proceeds of the District's operating revenues as well as loan proceeds from the Kentucky Industrial Authority.

At December 31, 2017 the Water District had invested \$30,266,452 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$18,261 from the previous year. The net decrease consisted of additions to capital assets of \$1,123,006 and depreciation expense of \$1,141,267. The additions were financed with proceeds from capital contributions and proceeds of the District's operating revenues.

Debt Administration

At December 31, 2018, the District had \$8,143,000 in revenue bonds outstanding and \$4,013,652 of loans payable outstanding. This represents a decrease of \$218,500 and a decrease of \$164,388 from the prior year balances of \$8,361,500 and \$4,178,040, respectively.

At December 31, 2017, the District had \$8,361,500 in revenue bonds outstanding and \$4,178,040 of loans payable outstanding. This represents a decrease of \$209,000 and an increase of \$13,676 from the prior year balances of \$9,011,000 and \$3,594,703 respectively.

**OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018 and 2017**

Other Matters

The District serves approximately 6,000 residential and commercial customers in Breckenridge, Daviess, Grayson, and Ohio Counties, including the cities of Beaver Dam and Fordsville.

In 2006, the District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant was \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equaled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the District providing \$2,000,000. The Ohio County Fiscal Court paid \$550,000 towards the amount of the project. The fiscal court agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bear a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

During 2015, the remaining balance of the 2003 bond series were paid off with proceeds from the 2015 bond series.

During 2015, the District implemented GASB No. 68, *Accounting and Financial Reporting for Pensions*. This standard requires cost-sharing governments to report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the participants in the plan. Therefore, included in long-term liabilities is a net pension liability of \$2,080,814 for 2018 and \$1,799,951 for 2017.

During 2016, the District placed in service phase 1 of a water system upgrade costing approximately \$1,000,000. A revolving loan was obtained from KIA for the project. The loan will be repaid over a period not to exceed twenty years.

During 2018, the District retrospectively implemented GASB No. 75, No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB")*. This standard requires cost-sharing governments to report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the participants in the plan. Therefore, included in long-term liabilities is a net OPEB liability of \$606,593 for 2018 and \$618,200 for 2017.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact the District at 124 East Washington Street, Hartford, KY 42347.

**OHIO COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2018 and 2017**

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 484,451	\$ 436,229
Accounts receivable - customers	300,311	270,532
Accounts receivable - other	15,441	4,142
Prepaid expenses	18,614	15,902
Unbilled revenue receivable	274,715	270,468
Interest receivable	<u>6,469</u>	<u>6,379</u>
Total Current assets	1,100,001	1,003,652
Restricted Assets		
Debt service fund		
Cash and cash equivalents	520,098	533,227
Construction fund		
Cash and cash equivalents	6,296	6,296
Depreciation fund		
Cash and cash equivalents	362,936	759,570
Investments	1,992,085	1,961,674
Debt service reserve fund		
Investments	101,165	99,665
Replacement reserve fund		
Cash and cash equivalents	<u>440,594</u>	<u>382,122</u>
Total Restricted Assets	3,423,174	3,742,554
Property, Plant, Equipment, and Intangibles net of accumulated depreciation	<u>30,206,017</u>	<u>30,266,452</u>
Total Assets	<u>\$ 34,729,192</u>	<u>\$ 35,012,658</u>
Deferred Outflows of Resources		
Deferred outflows - pensions	576,759	599,704
Deferred outflows - OPEB	<u>190,395</u>	<u>153,754</u>
Total Deferred Outflows of Resources	<u>\$ 767,154</u>	<u>\$ 753,458</u>

See accompanying notes.

OHIO COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION (Continued)
December 31, 2018 and 2017

	2018	2017
Liabilities		
Current Liabilities		
Accounts payable	\$ 175,022	\$ 96,260
Accrued payroll taxes	5,704	7,889
Sales tax payable	799	2,265
Utility tax payable	8,253	14,264
Accrued salaries	53,429	38,734
Accrued interest	165,336	168,695
Current portion of long-term debt	487,965	470,433
Current portion of compensated absence	9,241	5,738
Accrued retirement	18,868	18,199
Customers' deposits	<u>178,232</u>	<u>157,072</u>
Total Current Liabilities	1,102,849	979,549
Long-term Liabilities		
Loan payable to Kentucky Infrastructure Authority F15-069	1,154,239	1,123,219
Loan payable to Kentucky Infrastructure Authority F08-08	2,599,948	2,802,888
Revenue bonds payable series 91-01 & 91-03	7,464,500	7,583,000
Revenue bonds payable series 2015	450,000	560,000
Compensated absences	30,129	12,240
Net pension liability	2,080,814	1,799,951
Net OPEB liability	<u>606,593</u>	<u>618,200</u>
Total Long-term Liabilities	<u>14,386,223</u>	<u>14,499,498</u>
Total Liabilities	<u>\$ 15,489,072</u>	<u>\$ 15,479,047</u>
Deferred Inflows of Resources		
Deferred inflows – bond premium	3,679	4,482
Deferred inflows - pensions	163,833	196,554
Deferred inflows - OPEB	<u>115,036</u>	<u>32,368</u>
Total Deferred Inflows of Resources	<u>\$ 282,548</u>	<u>\$ 233,404</u>
Net Position		
Invested in capital assets, net of related debt	18,055,661	17,737,208
Restricted for debt service and construction	896,520	846,319
Unrestricted	<u>772,545</u>	<u>1,470,138</u>
Total Net Position	<u>\$ 19,724,726</u>	<u>\$ 20,053,665</u>

See accompanying notes.

OHIO COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Water sales	\$ 3,540,522	\$ 3,511,005
Miscellaneous service revenue	44,185	51,457
Penalties	71,306	69,091
Other revenues	<u>22,796</u>	<u>50,775</u>
Total Operating Revenues	3,678,809	3,682,328
Operating Expenses		
Salaries and wages	928,397	868,412
Payroll tax expense	75,951	67,251
Employee pension and benefits	640,129	539,668
Utilities	358,746	334,058
Chemicals	77,554	94,245
Materials and supplies	45,636	102,082
Contractual services	413,839	570,211
Rental of building and other real estate	1,560	1,026
Rental of equipment	2,906	1,347
Transportation expense	8,705	62,853
Insurance	79,084	80,676
Regulatory commission expense	7,552	7,272
Bad debt expense	18,000	19,445
Telephone expense	29,540	20,938
Miscellaneous	70,005	58,500
Depreciation	<u>1,147,618</u>	<u>1,139,914</u>
Total Operating Expenses	3,905,222	3,967,898
Operating Income	(226,413)	(285,570)
Non-operating Revenues / (Expenses)		
Interest income	42,823	43,565
Gain / (loss) on sale of equipment	(31,694)	32,261
Interest expense	(380,247)	(385,308)
KIA service fees	(6,659)	(5,379)
Non-utility income	12,000	11,600
Non-utility expense	<u>(7,502)</u>	<u>(5,505)</u>
Total Non-operating Revenues / (Expenses)	(371,279)	(308,766)
Income Before Contributed Capital	(597,692)	(594,336)

OHIO COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Income Before Contributed Capital <i>(carried forward)</i>	\$ (597,692)	\$ (594,336)
Contributed Capital		
Grant income	-0-	324,672
Capital contributions from customers	41,430	50,035
Capital contributions from other governments	<u>227,323</u>	<u>152,801</u>
Total Contributed Capital	<u>268,753</u>	<u>527,508</u>
Change in Net Position	(328,939)	(66,828)
Net Position, Beginning of Year	<u>20,053,665</u>	20,605,391
Change in Accounting Principle, GASB 75		<u>(484,898)</u>
Net Position, Beginning of Year, Restated		<u>20,120,493</u>
Net Position, End of Year	<u>\$ 19,724,726</u>	<u>\$ 20,053,665</u>

**OHIO COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS -
Years Ended December 31, 2018 and 2017**

	2018	2017
Cash flows from operating activities		
Cash received from customers	\$ 3,633,483	\$ 3,724,803
Cash payment to suppliers	(720,875)	(1,356,983)
Cash payments to employees	<u>(1,607,722)</u>	<u>(1,457,668)</u>
Net cash provided by operating activities	1,304,886	910,152
Cash flows from noncapital financing activities		
Proceeds from noncapital financing	<u>-0-</u>	<u>-0-</u>
Net cash provided by noncapital financing activities	-0-	-0-
Cash flows from capital and related financing activities		
Proceeds from notes payable	87,546	237,780
Proceeds from equipment sales	290,137	32,261
Proceeds from capital contributions	268,753	527,508
Principal paid on bonds and notes payable	(470,434)	(433,104)
Interest paid on bonds and notes payable	(383,606)	(386,222)
Other interest	-0-	(4,667)
Net capital expenditures	<u>(1,410,684)</u>	<u>(1,123,006)</u>
Net cash used by capital and related financing activities	(1,618,288)	(1,149,450)
Cash flows from investing activities		
Purchase of investments	(31,911)	(31,426)
Interest income	42,733	42,988
Other non-utility income / (expense)	<u>(489)</u>	<u>2,069</u>
Net cash provided by investing activities	<u>10,333</u>	<u>13,631</u>
Net (decrease) in cash and cash equivalents	(303,069)	(225,667)
Cash and cash equivalents, beginning of year	<u>2,117,444</u>	<u>2,343,111</u>
Cash and cash equivalents, end of year	<u>\$ 1,814,375</u>	<u>\$ 2,117,444</u>
Reflected in the Statements of Net Position		
Cash and cash equivalents	\$ 484,451	\$ 436,229
Restricted cash and cash equivalents – debt service fund	520,098	533,227
Restricted cash and cash equivalents – construction fund	6,296	6,296
Restricted cash and cash equivalents – depreciation fund	362,936	759,570
Restricted cash and cash equivalents – replacement reserve fund	<u>440,594</u>	<u>382,122</u>
Total cash and cash equivalents	<u>\$ 1,814,375</u>	<u>\$ 2,117,444</u>

**OHIO COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2018 and 2017**

	2018	2017
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ (226,413)	\$ (285,570)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,147,618	1,139,914
(Increase) decrease in deferred outflows of resources	(13,696)	(354,036)
Increase (decrease) in deferred inflows of resources	49,144	195,164
Change in assets and liabilities		
(Increase) decrease in customers' receivables	(29,780)	15,286
(Increase) decrease in other receivables	(11,299)	34,614
(Increase) decrease in prepaid expenses	(2,712)	8,263
(Increase) decrease in unbilled revenue receivable	(4,247)	(7,425)
Increase (decrease) in accounts payable	78,761	(109,011)
Increase (decrease) in construction payable	-0-	(98,834)
Increase (decrease) in accrued taxes and retirement	(8,992)	3,790
Increase (decrease) in accrued salaries	14,695	5,717
Increase (decrease) in compensated absences	21,391	(3,760)
Increase (decrease) in customer deposits	21,160	(18,871)
Increase (decrease) in net pension liability	280,863	251,609
Increase (decrease) in net OPEB liability	<u>(11,607)</u>	<u>133,302</u>
Net cash provided (used) by operating activities	<u>\$ 1,304,886</u>	<u>\$ 910,152</u>

See accompanying notes.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The Ohio County Water District (the "District") was organized on April 2, 1962, under KRS Chapter 74 as a special district to provide water services to residential and commercial customers in Breckenridge, Daviess, Grayson, and Ohio Counties, including the cities of Beaver Dam and Fordsville.

The governing board currently consists of seven commissioners, five of whom are appointed by the Ohio County Fiscal Court and two are appointed by the Daviess County Fiscal Court.

Basis of Accounting and Significant Accounting Policies

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements.

The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles. Under this method, revenues are recorded when earned, and expenses are recorded when incurred.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are: (a) financed and operated in a manner similar to private enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operations are included on the Statement of Net Position.

Estimates

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

Receivables

The District determined that all accounts receivable reported on the statements of net position at December 31, 2018 and 2017 are collectible, and therefore, no allowance for uncollectible accounts is considered necessary.

Unbilled Revenue Receivable

Water sold but unmetered at the date of the financial statements is estimated based on subsequent billing and included in current assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments consist of certificates of deposit recorded at cost, which is believed to approximate their fair market value.

Capital Assets

Capital assets are defined as assets with an individual cost of more than \$2,500. Capital assets are reported at cost or the fair market value at the time of contribution to the utility. Major outlays are capitalized as projects are constructed. Interest is capitalized on fixed assets constructed with borrowed funds. The amount of interest to be capitalized is calculated by offsetting interest expense from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Operating supplies are expensed at time of purchase. Depreciation is computed on the straight-line method over the following useful lives:

	Years
Land improvements	10-20
Pumping treatment plant and equipment	5-50
Transmission and distribution system	5-50
Other equipment	5-10

Operating Revenues and Expenses

Operating revenues and expenses are those generated by providing services to customers and include water sales, services revenue, penalties, and other miscellaneous operating revenues. Non-operating revenues are located in the statements of revenues and expenses after operating income (operating revenues less operating expenses). Non-operating income includes interest income and contributed capital.

Net Position

Net position represents the difference between assets and liabilities. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets 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. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. Unrestricted net position is the component of net position that does not meet definition of restricted or invested in capital assets net of related debt.

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 needed.

Subsequent Events

Management has evaluated subsequent events through September 19, 2019, the date the financial statements were available to be issued.

Income Taxes

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

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets in a future period and will not be recognized as an outflow of resources (expense) until that time.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets in a future period and will not be recognized as an inflow of resource (revenue) until that time.

Concentration of Credit Risk

The majority of the District's activities is with customers in and around Ohio County, Kentucky. The District extends credit to the customers within this area.

Recently Issued and Adopted Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB")*. The objective of this statement was to address accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employees. This statement established standards for recognizing and measuring liabilities, deferred outflows of resource, deferred inflows of resources, and expenses.

For defined benefit OPEB, this statement identified the methods and assumptions required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also were addressed. The District retrospectively implemented the new requirements of this statement during the fiscal year ended December 31, 2018. The implementation resulted in a reduction of the 2017 beginning net position of \$484,898 and an increase in the total OPEB liability of \$484,898.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Under Kentucky Revised Statute 66.480, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, and interest bearing deposits of insured national banks.

The District's deposits include cash in checking and savings accounts. The District's investments are all certificates of deposit. The District's deposits and investments at December 31, 2018 and 2017 were covered by federal depository insurance or by collateral held by the custodial banks.

At December 31, 2018, the book balance of the District's deposits and investments was \$3,907,624, and the bank balance was \$4,124,631. This does not include petty cash of \$226. At December 31, 2017, the book balance of the District's deposits and investments was \$4,178,168 and the bank balance was \$4,286,497. This does not include petty cash of \$615.

NOTE 3. CUSTODIAL CREDIT RISKS

Custodial credit risk is the risk that in an event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2018 and 2017, the District's cash and investments exposed to custodial credit risk were \$3,402,180 and \$3,781,053. However, these balances were secured by collateral held by pledging banks.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 4. RESTRICTED ASSETS

Debt Service Fund

The debt service funds are required under current debt instruments. Funds are restricted for paying interest and principal of the respective long-term debt. At year end December 31, 2018 and 2017, the debt service funds were invested in savings accounts with an interest rate of 0.50%.

The debt service fund at December 31, consisted of the following:

	2018	2017
Cash and Cash Equivalents		
Debt Service Fund Revenue Bond 2003	\$ 59,505	\$ 59,704
Debt Service Fund Rural Development Loan	360,686	357,038
Debt Service Fund KIA	82,382	82,000
Debt Service Fund KIA 2	12,081	29,041
Debt Service Water & Sewer Refunds Account	5,444	5,444
Total Cash and Cash Equivalents	<u>\$ 520,098</u>	<u>\$ 533,227</u>

Construction Fund

The construction funds are restricted to paying the costs associated with the respective project. The construction fund at December 31, consisted of the following:

	2018	2017
Total Cash and Cash Equivalents	<u>\$ 6,296</u>	<u>\$ 6,296</u>

Depreciation Fund

The depreciation fund was created and continued under previous revenue bond ordinances. Funds are restricted for paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements and the cost of constructing additions and improvements to the system. The fund shall also be available for transfer to the debt service fund in order to avoid default in connection with any outstanding debt payable or to purchase outstanding debt in advance of maturity.

The depreciation fund at December 31, consisted of the following:

	2018	2017
Cash and Cash Equivalents		
Investments (Certificates of Deposit)	\$ 362,936	\$ 759,570
Total	<u>1,992,085</u>	<u>1,961,674</u>
	<u>\$ 2,355,021</u>	<u>\$ 2,721,244</u>

Debt Service Reserve Fund

The debt service reserve fund revenue bonds series 2003 was established by a resolution adopted by the Commission of the District dated October 28, 2003. The amounts on deposit in the reserve fund shall be withdrawn and used to prevent a default in making payments of principal and interest on the bonds if the amount in the debt service fund is not sufficient to make such payments. In the event of any withdrawal, the District shall restore such deficiencies monthly into the reserve fund 1/36 of the amount required to be accumulated in the reserve funds until the total required debt service reserve shall have been restored. The required reserve balance is \$116,938. Any revenues in excess of the required debt service reserve shall be transferred to the debt service fund.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 4. RESTRICTED ASSETS (Continued)

The debt service reserve fund at December 31, consists of the following:

	2018	2017
Total Investments (Certificates of Deposit)	\$ <u>101,165</u>	\$ <u>99,665</u>

Replacement Reserve Fund

Required by new funding sources, the replacement reserve fund at December 31, consisted of the following:

	2018	2017
Cash and Cash Equivalents		
RD Replacement Fund	\$ 331,962	\$ 286,502
KIA Replacement Fund	<u>108,632</u>	<u>95,620</u>
Total Cash and Cash Equivalents	<u>\$ 440,594</u>	<u>\$ 382,122</u>

NOTE 5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2018 is as follows:

	Balance 01-01-18	Increases	Decreases	Balance 12-31-18
Capital assets, not being depreciated:				
Land and land rights	\$ 510,420	\$ 0	\$ 0	\$ 510,420
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	8,588,202	11,050	(43,923)	8,555,329
Pumping and treatment plant and equipment	7,567,411	110,160	(19,783)	7,657,788
Transmission and distribution system	26,373,372	639,772	(692,536)	26,320,608
Other equipment	<u>1,238,798</u>	<u>121,867</u>	<u>(527,374)</u>	<u>833,291</u>
Total capital assets being depreciated	<u>43,777,028</u>	<u>882,849</u>	<u>(1,283,616)</u>	<u>43,376,261</u>
Total capital assets	44,287,448	882,849	(1,283,616)	43,886,681
Less: accumulated depreciation				
Organization expense	(8,245)	0	0	(8,245)
Cost of water contracts	(1,000)	0	0	(1,000)
Land improvements	(1,608,044)	(237,301)	43,923	(1,801,422)
Pumping and treatment plant and equipment	(2,256,997)	(283,664)	19,783	(2,520,878)
Transmission and distribution system	(9,664,828)	(546,318)	660,722	(9,550,424)
Other equipment	<u>(761,406)</u>	<u>(82,003)</u>	<u>527,374</u>	<u>(316,035)</u>
Total accumulated depreciation	<u>(14,300,520)</u>	<u>(1,149,286)</u>	<u>1,251,802</u>	<u>(14,198,004)</u>
Construction in process	<u>279,524</u>	<u>527,835</u>	<u>(290,019)</u>	<u>517,340</u>
Net capital assets	<u>\$30,266,452</u>	<u>\$ 261,398</u>	<u>\$ (321,833)</u>	<u>\$ 30,206,017</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 5. CHANGES IN CAPITAL ASSETS (Continued)

Construction in process at December 31, 2018 was as follows:

Materials and supplies	\$ 274,723
District projects	<u>242,617</u>
	<u>\$ 517,340</u>

Depreciation expense of \$1,149,286 is reported in the statement of revenue and expenses in two separate amounts as depreciation expense in operating expenses of \$1,147,618 and \$1,668 as non-utility expense included in the non-operating revenues / expenses section.

A summary of changes in capital assets for 2017 is as follows:

	Balance 01-01-17	Increases	Decreases	Balance 12-31-17
Capital assets, not being depreciated:				
Land and land rights	\$ 506,225	\$ 4,195	\$ 0	\$ 510,420
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	8,580,962	7,240	0	8,588,202
Pumping and treatment plant and equipment	7,517,012	50,399	0	7,567,411
Transmission and distribution system	25,497,169	876,203	0	26,373,372
Other equipment	<u>1,179,878</u>	<u>90,320</u>	<u>(31,400)</u>	<u>1,238,798</u>
Total capital assets being depreciated	<u>42,784,266</u>	<u>1,024,162</u>	<u>(31,400)</u>	<u>43,777,028</u>
Total capital assets	43,290,491	1,028,357	(31,400)	44,287,448
Less: accumulated depreciation				
Organization expense	(8,245)	0	0	(8,245)
Cost of water contracts	(1,000)	0	0	(1,000)
Land improvements	(1,371,278)	(236,766)	0	(1,608,044)
Pumping and treatment plant and equipment	(1,973,798)	(283,199)	0	(2,256,997)
Transmission and distribution system	(9,116,778)	(548,050)	0	(9,664,828)
Other equipment	<u>(719,554)</u>	<u>(73,252)</u>	<u>31,400</u>	<u>(761,406)</u>
Total accumulated depreciation	<u>(13,190,653)</u>	<u>(1,141,267)</u>	<u>31,400</u>	<u>(14,300,520)</u>
Construction in process	<u>184,875</u>	<u>1,074,959</u>	<u>(980,310)</u>	<u>279,524</u>
Net capital assets	<u>\$30,284,713</u>	<u>\$ 962,049</u>	<u>\$ (980,310)</u>	<u>\$ 30,266,452</u>

Construction in process at December 31, 2017 was as follows:

Materials and supplies	\$ 262,024
District projects	<u>17,500</u>
	<u>\$ 279,524</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 5. CHANGES IN CAPITAL ASSETS (Continued)

The 2018 depreciation expense of \$1,141,268 is reported in the statement of revenue and expenses in two separate amounts as depreciation expense in operating expenses of \$1,139,914 and \$1,353 as non-utility expense included in the non-operating revenues / expenses section.

NOTE 6. LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2018 were as follows:

	Balance 01-01-2018	Increases	Decreases	Balance 12-31-2018	Current Portion
Loan Payable KIA F08-08 (a)	\$ 3,003,813	\$ -0-	\$ (200,925)	\$ 2,802,888	\$ 202,940
Revenue Bonds Series 91-01 (b)	6,570,000	-0-	(97,000)	6,473,000	101,000
Revenue Bonds Series 91-03 (c)	1,126,500	-0-	(16,500)	1,110,000	17,500
Revenue Bonds Series 2015 (d)	665,000	-0-	(105,000)	560,000	110,000
Loan Payable KIA F15-069 (e)	<u>1,174,227</u>	<u>87,546</u>	<u>(51,009)</u>	<u>1,210,764</u>	<u>56,525</u>
Total	<u>\$ 12,539,540</u>	<u>\$ 87,546</u>	<u>\$ (470,434)</u>	<u>\$ 12,156,652</u>	<u>\$ 487,965</u>

The long-term debt at December 31, 2018, consisted of the following:

(a) Loan Payable Kentucky Infrastructure Authority (KIA) F08-08:

In 2011, the District began drawing loan proceeds from KIA for the construction of the new water treatment plant. The amount, not to exceed \$5,000,000, was completed for \$3,742,957. Repayment of the loan commenced after the project was completed and requires semi-annual payments on the dates established by the schedule of payments. The loan bears an interest rate of 1% and an administrative fee of 0.25% over a term of 20 years.

(b) Revenue Bonds Series 91-01 and 91-03:

The District issued \$8,200,000 of Water works Revenue Bonds to provide construction funds for the new water treatment plant. The total amount of bonds issued are made up of two separate series of bonds, with \$7,000,000 from Series A and \$1,200,000 from Series B. Payments are due January 1st of each year for a term of 40 years. Both bonds have an interest rate of 4.125%. The bonds are fully registered and insured as to the principal and interest.

(c) Revenue Bonds Series 2015:

The District issued \$960,000 of Water works Revenue Bonds Series 2015 to provide for the refunding of the outstanding Series 2003 bonds. The bonds are fully registered and insured as to principal and interest. Interest is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2015. Principal is payable annually on August 1. The bonds are not subject to optional redemption prior to their stated maturities.

(d) Loan Payable Kentucky Infrastructure Authority (KIA) F15-069:

In 2015, the District was approved for a revolving loan not to exceed \$1,630,000 to replace approximately 17,500 linear feet of eight and ten inch lines with a sixteen inch line. The loan is to be repaid commencing one year after completion of the project over a period not to exceed twenty years. It is anticipated that any portion of the loan not currently used may be drawn down or transferred to another project. Principal and interest are payable semi-annually.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 6. LONG-TERM DEBT (Continued)

A schedule of the principal due on loans and bonds at December 31, 2018 is as follows:

Year	KIA	KIA	Revenue Bonds			Total
	Loan F08-08	Loan F15-069	Series 2015	Series 91-01	Series 91-03	
2019	202,940	56,525	110,000	101,000	17,500	487,965
2020	204,974	56,934	110,000	105,000	18,000	494,908
2021	207,029	57,934	110,000	109,500	19,000	503,463
2022	209,105	58,953	115,000	114,000	19,500	516,558
2023	211,201	59,989	115,000	118,500	20,500	525,190
2024-2027	866,190	250,688	0	525,500	90,000	1,732,378
2028-2032	901,449	338,956	0	789,500	135,500	2,165,405
2033-2037	0	330,785	0	966,000	166,000	1,462,785
2038-2042	0	0	0	1,181,500	203,000	1,384,500
2043-2047	0	0	0	1,447,000	247,500	1,694,500
2048-2050	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,015,500</u>	<u>173,500</u>	<u>1,189,000</u>
Total	2,802,888	1,210,764	560,000	6,473,000	1,110,000	12,156,652
Less Current Portion	<u>(202,940)</u>	<u>(56,525)</u>	<u>(110,000)</u>	<u>(101,000)</u>	<u>(17,500)</u>	<u>(487,965)</u>
Long-Term Portion	<u>2,599,948</u>	<u>1,154,239</u>	<u>450,000</u>	<u>6,372,000</u>	<u>1,092,500</u>	<u>11,668,687</u>

All long-term debt (loans and bonds) are secured solely by a pledge of and payable from the gross revenues derived from the operations of the District. Each obligation ranks on a parity basis as to security and source of payment with the other obligations.

The annual requirements to amortize long-term debt outstanding as of December 31, 2018, including interest payments, are as follows:

Year Ending Dec 31	KIA	KIA	Revenue Bonds			Total
	Loan F08-08	Bonds F15-069	Series 2015	Series 91-01	Series 91-03	
2019	230,462	76,895	121,775	365,928	62,927	857,987
2020	230,462	76,895	119,575	365,679	62,695	855,306
2021	230,462	76,895	117,376	365,755	62,932	853,420
2022	230,462	76,895	120,175	365,646	62,637	855,815
2023	230,462	76,895	117,588	365,350	62,812	853,107
2024-2027	921,848	615,160	0	1,460,875	250,339	3,248,222
2028-2032	921,848	768,950	0	1,824,349	312,865	3,828,012
2033-2037	0	692,055	0	1,820,410	312,377	2,824,842
2038-2042	0	0	0	1,815,192	311,427	2,126,619
2043-2047	0	0	0	1,810,473	309,633	2,120,106
2048-2050	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,079,324</u>	<u>184,379</u>	<u>1,263,703</u>
Total	<u>2,996,006</u>	<u>2,460,640</u>	<u>596,489</u>	<u>11,638,981</u>	<u>1,995,023</u>	<u>19,687,139</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM

The 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 at <http://kyret.ky.gov/>.

Plan Description

CERS is a cost-sharing, multiple-employer defined benefit pension plan and health insurance (OPEB) 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 plan. The plan provides for retirement, disability, and death benefits to plan members under certain circumstances. Cost-of-living adjustments ("COLA") are provided at the discretion of state legislature.

The Plan is divided into both a pension plan and a health insurance fund plan (OPEB), and each plan is further subdivided based on non-hazardous and hazardous duty covered employee classifications. The District has only non-hazardous employees.

CERS Contributions

For the years ended December 31, 2018 and 2017, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

For the year ended December 31, 2018, the District contributed 19.18% (14.48% for the pension fund and 4.70% for the OPEB) of each employee's wages from January to June 2018 and 21.48% (16.22% for the pension fund and 5.26% for the OPEB fund) of each employee's wages from July to December 2018. The District made all required contributions for the year ended December 31, 2018, which totaled \$180,413 (\$136,220 for the pension fund and \$44,193 for the OPEB fund).

Pension Liabilities, Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the District reported a liability of \$2,080,814 as its proportionate share of the net pension liability. The net pension liability was based on an actuarial valuation performed as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the District's proportion was 0.034166% of the total CERS non-hazardous duty employees. For the year ended December 31, 2018, the District recognized a pension expense of \$270,743 in addition to its pension fund contributions of \$136,220.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

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 of Resources
Difference between expected and actual results	\$ 67,870	\$ 30,459
Changes of assumptions	203,356	0
Difference between projected and actual earnings on plan investments	96,759	121,709
Changes in proportion and differences between District contributions and proportionate share of contributions	136,245	11,665
Company contributions subsequent to the measurement date	<u>72,529</u>	<u>0</u>
Total	<u>\$ 576,759</u>	<u>\$ 163,833</u>

The \$72,529 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 fiscal year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending	
December 31, 2019	\$ 226,200
December 31, 2020	127,498
December 31, 2021	(2,132)
December 31, 2022	<u>(11,169)</u>
	<u>\$ 340,397</u>

Actuarial Assumptions

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

Valuation date	June 30, 2016
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Payroll growth	2.00%
Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation

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 Disabled Mortality Table projected with Scale BB to 2013 (1-year set-back 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.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

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

Changes of Assumption

There have been no changes in actuarial assumptions since June 2017. In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- The payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-200 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired member and beneficiaries, the mortality table used is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (1-year set-back 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Combined equity	35%	5.79%
Combined fixed income	24%	6.71%
Real return (diversified inflation strategies)	10%	7.00%
Absolute return (diversified hedge funds)	10%	5.00%
Private equity	10%	6.50%
Real estate	5%	9.00%
Global bonds	4%	3.00%
Cash	<u>2%</u>	1.50%
Total	100%	

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

Discount Rate

The discount rate used to measure the total pension liability 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 benefit payments to determine the total pension liability.

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

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

	Discount Rate	Proportionate Share of Net Pension Liability
1% decrease	5.25%	\$ 2,619,529
Current discount rate	6.25%	\$ 2,080,814
1% increase	7.25%	\$ 1,629,465

OPEB Liabilities, OPEB Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources

At December 31, 2018, the District reported a liability of \$606,593 as 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 entities, actuarially determined. At June 30, 2018, the District's proportion was 0.034165% of the total CERS non-hazardous duty employees. For the year ended December 31, 2018, the District recognized OPEB expense of \$41,550 in addition to its OPEB fund contributions of \$44,193.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual results	\$ -0-	\$ 70,690
Changes of assumptions	121,146	1,401
Difference between projected and actual earnings on plan investments	-0-	41,782
Changes in proportion and differences between District contributions and proportionate share of contributions	45,729	1,163
Company contributions subsequent to the measurement date	<u>23,520</u>	<u>-0-</u>
Total	<u>\$ 190,395</u>	<u>\$ 115,036</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

The \$23,520 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 fiscal year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending		\$	
December 31, 2019		10,515	
December 31, 2020		10,515	
December 31, 2021		10,515	
December 31, 2022		18,630	
December 31, 2023		3,066	
Thereafter		(1,402)	
		<u>51,839</u>	

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, unless otherwise specified:

Actuarial cost method	Entry Age Normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level, percentage of pay
Amortization period	25 years, closed
Payroll growth	2.00%
Investment rate of return	6.25%, net of pension plan expense, including inflation
Inflation	2.30%
Salary increases	3.05%, average, including inflation
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set-back 1 year for females)
Healthcare trend rates (Pre-65)	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Healthcare trend rates (Post-65)	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

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

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Combined equity	35%	5.79%
Combined fixed income	24%	6.71%
Real return (diversified inflation strategies)	10%	7.00%
Absolute return (diversified hedge funds)	10%	5.00%
Private equity	10%	6.50%
Real estate	5%	9.00%
Global bonds	4%	3.00%
Cash	2%	1.50%
Total	100%	

Changes of Assumption

In 2017, the demographic and economic assumptions that affect the measurement of the total OPEB liability were updated as follows:

- The assumed investment rate was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- The payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-200 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

In 2018, the following changes were made to the discount rates:

- For the non-hazardous plan, the single discount rate changed from 5.84% to 5.85%.

Discount Rate

The discount rate used to measure the total OPEB liability was 5.85%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at contractually required contribution rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

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

	Discount Rate	Proportionate Share of Net OPEB Liability
1% decrease	4.85%	\$ 787,867
Current discount rate	5.85%	\$ 606,593
1% increase	6.85%	\$ 452,180

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, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability
1% decrease	\$ 451,614
Current discount rate	\$ 606,593
1% increase	\$ 789,268

CERS Payable

At December 31, 2018, the District reported a payable of \$18,868 for the outstanding amount of employer and employee contributions to the Plan required for the year ended December 31, 2018. The payable includes both the pension and OPEB 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 accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 9. MAJOR CONSTRUCTION PROJECTS

In June 1995, a hydraulic analysis of the District was completed pursuant to an order issued by the Public Service Commission (PSC). Numerous deficiencies throughout the system were identified. As a result, the District's Commission approved a long-range plan to construct needed improvements to the water system. The total cost of the proposed construction is approximately \$10,000,000 to be done in three series.

Series I (1998) Construction Project:

On January 6, 1998, the District submitted an application to the PSC for approval of the Series I Construction Project and the approval to issue revenue bonds in the amount of \$4,000,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. On August 19, 1998, the PSC approved the application. The Series I Construction Project was substantially completed in 1999.

The Series I Construction Project consisted of approximately 44 miles of distribution mains (approximately 14 miles in unserved areas of the District), two 500,000-gallon storage tanks, tie-in to the Perdue Farms, Inc. water treatment plant, pumping and water treatment equipment, an office at Perdue Farms, Inc., and radio telemetry equipment for monitoring and controlling the system. Pursuant to an agreement dated August 13, 1998, the Ohio County Fiscal Court assigned its contract rights to 1,000,000 gallons of water per day from Perdue Farms, Inc. to the District.

Series II (2000) Construction Project:

On April 12, 2000, the District submitted an application to the PSC for approval of the Series II Construction Project and the approval to issue revenue bonds in the amount of \$4,035,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on July 14, 2000. The construction project was substantially completed in 2002.

The Series II Construction Project consists of approximately 25 miles of distribution mains, an additional 500,000-gallon storage tank, and radio telemetry to the new tank. The distribution mains will extend mains into unserved areas and is designed to reinforce the existing system and eliminate deficiencies.

Series III (2003) Construction Project:

On April 7, 2003, the District submitted an application to the PSC for approval of the Series III Construction Project and the approval to issue revenue bonds in the amount of \$1,890,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on May 15, 2003.

The Series III Construction Project consists of approximately 34 miles of water mains in Ohio and Daviess Counties that will provide service to approximately 65 new customers and enhance the quality and reliability of service to approximately 248 customers. The project was substantially completed in 2004.

Fordsville Water Main:

On January 27, 2003, the District signed a contract for water service with the City of Fordsville, a municipal corporation of the Sixth Class, whereby the city agrees to purchase from the District, upon connection of the District water main line to the Fordsville Water System, the City's total water requirements to meet the demands of all of the City's water customers, and the District agrees to furnish and sell to Fordsville treated water necessary to satisfy the City's needs at a wholesale rate.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 9. MAJOR CONSTRUCTION PROJECTS (Continued)

In order to supply the City of Fordsville, a water main approximately 8.5 miles long was constructed to connect the city to the District's existing distribution system. The construction completed in 2004 was financed with a \$500,000 Community Development Block Grant to the City of Fordsville for the benefit of the District, a \$241,500 Coal Severance Grant and approximately \$58,500 provided by the District.

Purchase of Rockport Water System:

On May 1, 2003, the District entered into a contract with the City of Rockport to purchase the City's water system assets and customers excluding the City's existing water plant and intake structure. The system purchased consists of approximately 14 miles of water mains, a 138,000-gallon standpipe, and approximately 250 customers. In consideration for the purchase of the system, the District assumed the liability for full payment of the outstanding indebtedness of the City to Kentucky Municipal Corporation and the Green River Area Development District. The District paid the loans in 2004 totaling \$345,825. Additional costs related to the project, including costs to connect the District system to the Rockport system, were approximately \$190,000. A Coal Severance Grant of \$232,260 is being used to finance the project, with the District providing the remaining funds. The District began supplying the customers on May 14, 2004.

New Water Treatment Plant:

In December 2006, the District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant was \$13,543,836. In conjunction with the water plant project, the district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equaled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the District providing \$2,000,000. The Ohio County Fiscal Court has paid \$760,000 towards the amount of the project they agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each have a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of 0.25% and a term of 20 years.

Breckenridge County Project:

In December 2006, the District accepted assignment of a \$496,000 grant from Breckenridge County Fiscal Court. The grantee accumulated cost of the project as of December 31, 2006 equaled \$58,790.

New Administrative Building:

In March 2007, the District purchased the Flener Building for \$148,000. This building has been renovated to become the administrative office.

Phase 1 Water Mains:

In 2015, the District began the water main upgrade project replacing approximately 17,500 linear feet of eight and ten inch lines with a sixteen inch line. The total cost of the project is not to exceed \$1,630,000. This will eliminate one pump station resulting in an annually savings of \$40,000 and will improve reliability of the system. Funding of the project is through Kentucky Infrastructure Authority loan.

**OHIO COUNTY WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net pension liability	.034166%	.030751%	.031447%	.027397%						
Proportionate share of the net pension liability (asset)	\$ 2,080,814	\$ 1,799,951	\$ 1,548,342	\$ 1,177,927						
Covered employee payroll										
In year of measurement	\$ 849,237	\$ 815,778	\$ 810,128	\$ 746,634						
Share of the net pension liability (asset) as a % of its covered payroll	245.02%	220.64%	191.12%	157.76%						
Plan fiduciary net position as a % of total pension liability	53.54%	53.30%	55.50%	59.97%						

SCHEDULE OF PENSION CONTRIBUTIONS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 136,220	\$ 115,961	\$ 110,171							
Actual contribution	136,220	115,961	110,171							
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-							
Covered employee payroll	\$ 887,015	\$ 815,778	\$ 822,561							
Contributions as a % of covered employee payroll	15.36%	14.21%	13.39%							

Notes:

- These schedules are intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
- The amounts presented for each fiscal year were determined (measured) as of June 30 of the fiscal year presented.

**OHIO COUNTY WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	.034165%									
Proportionate share of the net OPEB liability (asset)	\$ 606,593									
Covered employee payroll in year of measurement	\$ 849,237									
Share of the net OPEB liability (asset) as a % of its covered payroll	71.43%									
Plan fiduciary net position as a % of total OPEB liability	57.62%									

SCHEDULE OF OPEB CONTRIBUTIONS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 44,194									
Actual contribution	44,194									
Contribution deficiency (excess)	\$ -0-									
Covered employee payroll	\$ 887,015									
Contributions as a % of covered employee payroll	4.98%									

Notes:

- These schedules are intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
- The amounts presented for each fiscal year were determined (measured) as of June 30 of the fiscal year presented.

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 Commissioners
Ohio County Water District

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 Ohio County Water District as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the Ohio County Water District's basic financial statements, and have issued our report thereon dated September 19, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ohio 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ohio County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ohio 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 District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ohio County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-01.

Ohio County Water District's Response to Findings

Ohio County Water District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Response. Ohio 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose, and is intended solely for the use of management and members of the board.

Hensley & Throneberry, CPAs

September 19, 2019

**OHIO COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2018-01 Noncompliance with a Debt Covenant

Criteria

The Kentucky Industrial Authority (“KIA”) loan F15-069 requires an annual deposit of \$4,100 into a replacement reserve account until a total amount of \$41,000 is reached. Then, that amount should be maintained for the life of the loan.

Condition

The Kentucky Industrial Authority (“KIA”) loan F15-069 replacement reserve account deposits were not made.

Effect

Although unlikely, the Kentucky Industrial Authority (“KIA”) could call the loan. Restricted assets were understated as these amounts were not classified as restricted.

Cause

A transition from one outside CPA to another created an environment where it was overlooked as the daily operations and monthly duties were transferred.

Recommendation

We recommend the District open a replacement reserve account and deposit the funds due in arrears into the account.

Response

Upon immediate notification, the District opened an account with the necessary deposits to be in compliance with the KIA loan.