

EAST CASEY COUNTY WATER DISTRICT
Liberty, Kentucky

FINANCIAL STATEMENTS
December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
East Casey County Water District
Liberty, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the East Casey County Water District (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Casey County Water District, as of December 31, 2016 and 2015, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension schedules on pages 14-15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
June 29, 2017

EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31,

ASSETS	2016	2015
Current assets		
Cash and cash equivalents	\$ 665,496	\$ 762,778
Investments - certificates of deposit	1,097,044	850,005
Customer accounts receivable, net	140,936	132,237
Accrued interest receivable	4,893	734
	<u>1,908,369</u>	<u>1,745,754</u>
Restricted assets		
Cash and cash equivalents	-	38,630
Investments - certificates of deposit	38,630	-
	<u>38,630</u>	<u>38,630</u>
Capital assets		
Land	87,044	87,044
Property, plant and equipment, net	12,771,195	12,798,713
Construction-in-progress	-	390,690
	<u>12,858,239</u>	<u>13,276,447</u>
Total assets	14,805,238	15,060,831
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	91,103	64,395
Total assets and deferred outflows of resources	<u>\$ 14,896,341</u>	<u>\$ 15,125,226</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 80,350	\$ 80,907
Taxes payable	12,616	10,014
Construction payable	-	32,651
Customer deposits payable	25,800	29,975
Accrued interest payable	8,047	7,417
Current portion of long-term debt	160,663	153,977
	<u>287,476</u>	<u>314,941</u>
Noncurrent liabilities		
Net pension liability	474,260	417,568
KIA revolving loan payable	959,182	897,761
Bonds payable	2,621,510	2,783,446
	<u>4,054,952</u>	<u>4,098,775</u>
Total liabilities	<u>4,342,428</u>	<u>4,413,716</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	3,079	1,572
NET POSITION		
Net investment in capital assets	9,116,884	9,441,263
Restricted for reserves	38,630	38,630
Unrestricted	1,395,320	1,230,045
	<u>10,550,834</u>	<u>10,709,938</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 14,896,341</u>	<u>\$ 15,125,226</u>

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

EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the year ended December 31,

	2016	2015
OPERATING INCOME		
Water sales	\$ 1,669,056	\$ 1,637,521
Late charges	46,992	43,588
Other revenue	<u>15,526</u>	<u>20,310</u>
Total operating income	<u>1,731,574</u>	<u>1,701,419</u>
OPERATING EXPENSES		
Water purchases	745,635	653,539
Salaries	257,402	237,602
Employee benefits	162,589	129,950
Taxes	21,069	19,297
Office expense and postage	40,679	39,407
Insurance	31,131	31,624
Transportation expense	25,558	24,747
Line upkeep	68,636	64,700
Contract labor	70,992	139,497
Utilities and telephone	96,447	85,888
Legal and professional	21,478	14,871
Miscellaneous	18,712	18,595
Regulatory commission expenses	<u>3,392</u>	<u>3,164</u>
Total operating expense	<u>1,563,720</u>	<u>1,462,881</u>
Operating income before depreciation	167,854	238,538
Depreciation expense	<u>(316,236)</u>	<u>(317,915)</u>
OPERATING INCOME (LOSS)	(148,382)	(79,377)
Non-operating income (expenses)		
Interest income	16,482	6,750
Gain on sale of fixed asset	6,867	-
Interest expense	(99,163)	(106,303)
Bond issue costs	<u>(10,082)</u>	<u>(8,081)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(234,278)	(187,011)
Capital Contributions		
Principal forgiveness	33,073	127,064
Tap fees	29,630	35,240
Other	<u>12,471</u>	<u>14,696</u>
Change in net position	(159,104)	(10,011)
Net position, beginning of year	<u>10,709,938</u>	<u>10,719,949</u>
NET POSITION, END OF YEAR	<u>\$ 10,550,834</u>	<u>\$ 10,709,938</u>

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

EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the year ended December 31,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,722,875	\$ 1,702,373
Payment to suppliers	(1,074,867)	(982,703)
Payment for employee services and benefits	<u>(459,492)</u>	<u>(489,750)</u>
Net cash provided by operating activities	<u>188,516</u>	<u>229,920</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments	(155,250)	(98,196)
Proceeds from new debt issue	94,494	368,039
Interest payments	(98,533)	(102,415)
Bond issue costs	(10,082)	(8,081)
Proceeds from sale of property	177,000	-
Additions to property, plant and equipment	(100,812)	(594,641)
Tap fees	29,630	35,240
Other capital contributions	<u>12,471</u>	<u>14,696</u>
Net cash provided (used) by financing activities	<u>(51,082)</u>	<u>(385,358)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in certificates of deposit	(285,669)	(3,178)
Interest income	<u>12,323</u>	<u>6,820</u>
Net cash provided (used) by investing activities	<u>(273,346)</u>	<u>3,642</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(135,912)	(151,796)
Cash and cash equivalents, beginning of year	<u>801,408</u>	<u>953,204</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 665,496</u>	<u>\$ 801,408</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (148,382)	\$ (79,377)
Noncash items included in operating income		
Depreciation	316,236	317,915
Net pension liability	31,491	17,299
Changes in assets and liabilities		
(Increase) decrease in receivables	(8,699)	954
Increase (decrease) in accounts payable	(557)	(26,454)
Increase (decrease) in customer deposits	(4,175)	(800)
Increase (decrease) in taxes/other payables	<u>2,602</u>	<u>383</u>
Net cash provided by operating activities	<u>\$ 188,516</u>	<u>\$ 229,920</u>
Supplemental disclosure of cash flow information:		
Non-cash capital and related financing information:		
Fixed asset additions accrued as accounts payable	\$ -	\$ 4,651
Amortization on bond premium	\$ 1,273	\$ 1,273

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

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

1. ORGANIZATION AND ACCOUNTING POLICIES

The East Casey County Water District (the District) was created and organized as a public body corporate in Casey County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Casey County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net position consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 4.

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

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand, cash in bank and certificates of deposit with original maturities of 90 days or less.

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

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, and capital contributions.

Fixed assets are recorded at cost. Donated assets are valued at their fair market value on the date of donation. Interest incurred during the period of construction is capitalized as a part of the construction costs. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

The allowance for uncollectible accounts at December 31, 2016 and 2015 was \$572,710 and \$517,911, respectively. The District charges all uncollected accounts directly against current earnings. Charges against earnings for the years ended December 31, 2016 and 2015 were \$54,799 and \$43,661, respectively.

Investments consist of certificates of deposit with original maturities of 90 days or longer. Investments are recorded at cost, which approximates fair value.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The District has evaluated and considered the need to recognize or disclose subsequent events through June 29, 2017, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2016, have not been evaluated by the District.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies. The District does not have a formal investment policy but follows Kentucky Revised Statutes for investing funds.

The East Casey County Water District deposits at December 31, 2016 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$1,807,584 at December 31, 2016, \$500,000 was covered by FDIC and the remaining \$1,307,584 was covered by collateral held at the custodial bank in the District's name.

3. PROPERTY, PLANT, AND EQUIPMENT

A summary of capital asset activity during the years ended December 31, 2016 and 2015:

	Balance 12/31/2014	Additions	Deductions	Balance 12/31/2015
Capital assets not depreciated:				
Land	\$ 82,544	\$ 4,500	\$ -	\$ 87,044
Construction in progress	<u>-</u>	<u>390,690</u>	<u>-</u>	<u>390,690</u>
Totals	<u>82,544</u>	<u>395,190</u>	<u>-</u>	<u>477,734</u>
Capital assets that are depreciated:				
Personal property & equipment	<u>18,427,733</u>	<u>204,102</u>	<u>-</u>	<u>18,631,835</u>
Less accumulated depreciation	<u>5,515,207</u>	<u>317,915</u>	<u>-</u>	<u>5,833,122</u>
Totals	<u>12,912,526</u>	<u>(113,813)</u>	<u>-</u>	<u>12,798,713</u>
Capital assets, net	<u>\$ 12,995,070</u>	<u>\$ 281,377</u>	<u>\$ -</u>	<u>\$ 13,276,447</u>
	Balance 12/31/2015	Additions	Deductions	Balance 12/31/2016
Capital assets not depreciated:				
Land	\$ 87,044	\$ -	\$ -	\$ 87,044
Construction in progress	<u>390,690</u>	<u>61,843</u>	<u>(452,533)</u>	<u>-</u>
Totals	<u>477,734</u>	<u>61,843</u>	<u>(452,533)</u>	<u>87,044</u>
Capital assets that are depreciated:				
Personal property & equipment	<u>18,631,835</u>	<u>458,851</u>	<u>(176,000)</u>	<u>18,914,686</u>
Less accumulated depreciation	<u>5,833,122</u>	<u>316,236</u>	<u>5,867</u>	<u>6,143,491</u>
Totals	<u>12,798,713</u>	<u>142,615</u>	<u>(170,133)</u>	<u>12,771,195</u>
Capital assets, net	<u>\$ 13,276,447</u>	<u>\$ 204,458</u>	<u>\$ (622,666)</u>	<u>\$ 12,858,239</u>

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

4. LONG-TERM DEBT

In December 2014, the Kentucky Bond Corporation issued Series 2014E Revenue Bonds for the District in order to refund all prior outstanding bonds. This issue contained a premium in the amount of \$30,552, which has been reported with bonds payable and is being amortized over the term of the debt. The new issue will reduce debt service payments by \$753,224 and has a net economic gain of \$149,472. This issue requires annual premium payments beginning in February 2016, ranging from \$105,000 to \$145,000 and bears interest at an average rate of 3.63%.

The District has obtained a Federally Assisted Drinking Water Revolving Loan from the Kentucky Infrastructure Authority in order to fund the Various Waterline Extensions Project. The District is taking draws on the loan as the project progresses. During 2016, the District obtained draws totaling \$94,494, in order to fund project expenses. As part of the loan agreement, the District is entitled to principal forgiveness in the amount of 35%. Due to this provision, the District has recognized \$33,073 of principal forgiveness in current year operations; this amount represents 35% of the draws obtained during 2016. At project completion in 2016, final loan and forgiveness amounts totaled \$1,004,250. Loan repayments began during 2016. The loan has a stated interest rate of 1% to be repaid over 20 years.

The annual requirements to amortize all long-term debt outstanding as of December 31, 2016, are as follows:

Year Ending	Principal	Interest	Fees	Payment
2017	\$ 160,663	\$ 97,329	\$ 9,705	\$ 267,697
2018	161,542	94,575	9,303	265,420
2019	162,008	91,809	8,899	262,716
2020	171,646	87,983	8,493	268,122
2021	172,956	83,782	8,064	264,802
2022-2026	930,420	352,904	33,600	1,316,924
2027-2031	921,389	232,153	21,819	1,175,361
2032-2036	817,302	110,893	10,667	938,862
2037-2041	<u>215,423</u>	<u>12,656</u>	<u>1,781</u>	<u>229,860</u>
	<u>3,713,349</u>	<u>\$ 1,164,084</u>	<u>\$ 112,331</u>	<u>\$ 4,989,764</u>
Net pension liability	474,260			
Premium on Refunding	<u>28,006</u>			
	<u>\$ 4,215,615</u>			

The following is a summary of long term debt for the year ended December 31, 2015:

	Interest Rate	Balance January 1, 2015	Issued	Principal Payments (Forgiveness)	Balance December 31, 2015
KY Bond Corporation	3.63%	\$ 2,960,000	\$ -	\$ 96,923	\$ 2,863,077
Premium on Refunding	-	30,552	-	1,273	29,279
Net pension liability	-	337,446	80,122	-	417,568
KIA Revolving Loan	1.00%	<u>706,853</u>	<u>363,039</u>	<u>127,064</u>	<u>942,828</u>
		<u>\$ 4,034,851</u>	<u>\$ 448,161</u>	<u>\$ 225,260</u>	<u>\$ 4,252,752</u>

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

4. LONG-TERM DEBT (CONTINUED)

The following is a summary of long term debt for the year ended December 31, 2016:

	Interest Rate	Balance January 1, 2016	Issued	Principal Payments (Forgiveness)	Balance December 31, 2016
KY Bond Corporation	3.63%	\$ 2,863,077	\$ -	\$ 108,910	\$ 2,754,167
Premium on Refunding	-	29,279	-	1,273	28,006
Net pension liability	-	417,568	56,692	-	474,260
KIA Revolving Loan	1.00%	<u>942,828</u>	<u>94,494</u>	<u>78,140</u>	<u>959,182</u>
		<u>\$ 4,252,752</u>	<u>\$ 151,186</u>	<u>\$ 188,323</u>	<u>\$ 4,215,615</u>

Bond and Interest Reserve - Per the ordinances authorizing the Kentucky Bond Corporation First Series 2014E Revenue Bonds, the District is required to establish and contribute towards a sinking fund. The District met this requirement at December 31, 2016 and 2015. Transfers to the sinking fund are reported as interest expense and principal reduction. Future debt obligations shown on the schedule reflect future transfers from the sinking fund to the bond holder.

Depreciation Reserve - Per the assistance agreement with KIA, the District is required to maintain a depreciation reserve in the amount of \$38,630. The District met this requirement at December 31, 2016 and 2015.

5. RETIREMENT PLAN

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

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

Contributions – For the year ended December 31, 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2016, participating employers contributed 17.06% through June 30 and 18.68% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

5. RETIREMENT PLAN (CONTINUED)

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. 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 contributed \$46,157 for the year ended December 31, 2016, or 100% of the required contribution. The contribution was allocated \$34,089 to the CERS pension fund and \$12,068 to the CERS insurance fund.

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

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

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old or At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 Not available

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

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

5. RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2016, the District reported a liability of \$474,260 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District 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, 2016, the District's proportion was .00963 percent, which was a decrease of 0.00008 from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the District recognized pension expense of \$63,106. At December 31, 2016, 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
Differences between expected and actual results	\$ 2,071	\$ -
Changes of assumptions	25,124	-
Net difference between projected and actual earnings on Plan investments	44,585	-
Changes in proportion and differences between Company contributions and proportionate share of contributions	-	3,079
Company contributions subsequent to the measurement date	19,323	-
Total	\$ 91,103	\$ 3,079

The \$19,323 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. 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,	
2017	\$ 25,200
2018	16,609
2019	16,995
2020	9,897

Actuarial Assumptions – The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%	
Salary increases	4.00%, average, including inflation	
Investment rate of return	7.50%, net of Plan investment expense, including inflation	

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

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

5. RETIREMENT PLAN (CONTINUED)

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

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	<u>2%</u>	-.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

5. RETIREMENT PLAN (CONTINUED)

	Discount rate		District's proportionate share of net pension liability
1% decrease	6.50%	\$	374,186
Current discount rate	7.50%	\$	474,260
1% increase	8.50%	\$	591,004

Payable to the Pension Plan – The District reported a payable of \$7,085 and \$4,325 as of December 31, 2016 and 2015, respectively, for the outstanding amount of contributions to the pension plan required for the years then ended. The payable includes both the pension and insurance contribution allocation.

6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. CONTINGENCIES

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

REQUIRED SUPPLEMENTARY INFORMATION

**EAST CASEY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Three Fiscal Years**

	2014	2015	2016
Company's proportion of the net pension liability	0.00977%	0.00971%	0.00963%
Company's proportionate share of the net pension liability (asset)	\$ 317,000	\$ 417,568	\$ 474,260
Company's covered employee payroll	\$ 224,349	\$ 236,962	\$ 257,403
Company's share of the net pension liability (asset) as a percentage of its covered employee payroll	141.30%	176.22%	184.25%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

**EAST CASEY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Four Fiscal Years**

	2013	2014	2015	2016
Contractually required employer contribution	\$ 27,976	\$ 29,813	\$ 29,587	\$ 34,089
Contributions relative to contractually required employer contribution	<u>\$ 27,976</u>	<u>\$ 29,813</u>	<u>\$ 29,587</u>	<u>\$ 34,089</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 225,527	\$ 224,349	\$ 236,962	\$ 257,403
Employer contributions as a percentage of covered-employee payroll	12.40%	13.29%	12.49%	13.24%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

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



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

To the Board of Commissioners
East Casey County Water District
Liberty, 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 East Casey County Water District (the "District"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 29, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be material weaknesses (2016-001).

Compliance and Other Matters

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

East Casey County Water District's Response to Findings

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

Purpose of this Report

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

RFH

RFH, PLLC
June 29, 2017

**EAST CASEY COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2016**

FINDING:

2016-001 – Internal Control Over Financial Reporting (Recurring)

Criteria:

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Cause:

The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

Effect:

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation:

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

Response:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.