CORINTH WATER DISTRICT

FINANCIAL STATEMENTS

For Years Ending December 31, 2018 and 2017

CORINTH WATER DISTRICT

FINANCIAL STATEMENTS

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CORINTH WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2018 and 2017

Chair

Dan Field

Treasurer

Donnie Dyer

Secretary

Bob McDaniel

Legal Counsel

Pete Whaley, Attorney at Law

Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

Independent Auditor's Report

To the Board of Commissioners
Corinth Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Corinth Water District (District), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 audits 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 business-type activities of the Corinth Water District as of December 31, 2018 and 2017 and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

3216 Dixie Highway • Erlanger, KY 41018 • Phone: (859) 431-0700 • Fax: (859)655-4780

Emphasis of a Matter – Implementation of New GASB Accounting Standard

As discussed in Note 11 to the financial statements, effective July 1, 2018, the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–8 and the pension and OPEB disclosure information on pages 29 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2019 on our consideration of the Corinth 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 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 Corinth Water District's internal control over financial reporting and compliance.

Van Gorder, Walker + Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
July 24, 2019

CORINTH WATER DISTRICT
P.O. BOX 218
CORINTH, KY 41010

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2018. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by $896,350 (net position). Net position decreased by $203,294 from the prior year.
- At the end of the current year, unrestricted net position was ($336,815), which is an increase of $61,752 from the prior year.

USING THIS ANNUAL REPORT

The financial statements presented herein include all of the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements and supplemental schedules. These statements show the condition of the District's finances and the sources of income and the funds expended.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

The Statements of Net Position and Revenues, Expenses, and Changes in Net Position

In the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of certain services the District provides.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2018 and 2017.

Table 1
Net Position

	2018	(Restated) 2017
Current assets	$ 86,429	$ 110,299
Restricted assets	46,246	79,041
Capital assets	3,326,381	3,470,721
Deferred outflow of resources	114,253	91,485
Total assets and deferred outlow of resources	3,573,309	3,751,546
Current liabilities	56,471	43,414
Liabilities from restricted assets	97,255	94,716
Long-term liabilities	2,473,804	2,472,294
Deferred inflow of resources	49,429	41,478
Total liabilities and deferred inflow of resources	2,676,959	2,651,902
Net position:		
Invested in capital assets, net of related debt	1,231,758	1,341,395
Restricted	1,407	33,312
Unrestricted	(336,815)	(275,063)
Total net position	$ 896,350	$ 1,099,644

The District's net position for 2018 decreased 18.5%, or $203,294, as compared to a 17.2% or $229,005 decrease in the previous year. The 2018 and 2017 decrease is due to an increase in the net unfunded pension liability and a decrease in net capital assets.

The largest portion of the District's net position (137.4%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position .157% is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted portion of net position may be used to meet the District's ongoing obligations to customers and creditors.

SUMMARY OF CHANGES IN NET POSITION

Operating Revenues
Operating revenues decreased $15,020, or 2.1%. This was primarily because the summer of 2018 was warm and dry resulting in increased water sales

Operating Expenses
Operating expenses increased $23,355 or 3.1%. A large portion of this increase was due to an increase in water costs. The District experienced increases in salaries and benefits expenses, transportation expense, and depreciation expense during 2018.

Net Effect of Change in Pension and OPEB Expense
This expense represents the amount that the District's proportionate share of the estimated unfunded pension and OPEB liability associated with its participation in the County Employee Retirement System in its financial statements. The amount that appears as a non-operating expense, $38,825, is the result of booking the change in the liability and the related deferred inflows and outflows less any amortization of those inflows and outflows between December 31, 2018 and December 31, 2017. This expense increased $13,365 from the amount reported in 2017. See Note 11 to the financial statements for a more complete explanation of this unfunded liability and the related deferred inflows and outflows.

Capital Contributions
Capital contributions increased $379 from 2017 to 2018.

The following schedule compares the revenues and expenses for the current year and the previous year.

Table 2
Changes in Net Position

	2018	(Restated) 2017
Operating revenues:		
Water revenue	$ 667,764	$ 680,967
Forfeited discounts	30,496	32,051
Miscellaneous service revenues	7,785	8,047
Total operating revenues	706,045	721,065
Total operating expenses	784,158	760,803
Net operating (loss) income	(78,113)	(39,738)
Non-operating income (expense):		
Interest income	6	20
Gain on disposal of asset	-	7,044
Net effect of change in pension and OPEB expense	(38,825)	(25,460)
Interest on long-term obligations	(91,362)	(92,709)
Net non-operating expense	(130,181)	(111,105)
Net loss	(208,294)	(150,843)
Capital contributions	5,000	4,621
Change in net position	(203,294)	(146,222)
Net position, January 1	1,099,644	1,328,649
Prior period adjustment	-	(82,783)
Net position, December 31	$ 896,350	$ 1,099,644

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2017, the District had $3,326,381 invested in capital assets including land, water lines, vehicles, and equipment, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of $144,340 from the prior year. This decrease is due to the fact that depreciation expense of $167,423 exceeded the cost of new assets purchased during 2018.

Table 3 summarizes the District's capital assets at the end of 2018 as compared to 2017.

Table 3
Capital Assets at Year End

	2018	2017
Land	$ 21,200	$ 21,200
Buildings and improvements	105,885	105,885
Lines and equipment	6,396,649	6,373,566
Office furniture and fixtures	24,048	24,048
Transportation equipment	51,573	51,573
Subtotal	6,599,355	6,576,272
Accumulated depreciation	(3,272,974)	(3,105,551)
Total capital assets	$ 3,326,381	$ 3,470,721

The District currently has no construction in progress.

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2018 compared to 2017.

Table 4
Outstanding Debt at Year End

	2018	2017
Bonds payable	$ 2,062,300	$ 2,108,000
Note payable	18,323	21,326
Total outstanding debt	$ 2,080,623	$ 2,129,326

At year-end, the District had $2,080,623 in outstanding debt compared to $2,129,326 the previous year. This is a decrease of $48,703.

All of the required payments were made on the District's outstanding debt during 2018.

SUSTAINED NET LOSSES

The District sustained net losses of ($208,294) and ($150,843) for the year's ended December 31, 2018 and 2017, respectively. A significant portion of this net loss came in 2018 from a large water leak that District employees were unable to find. The District lost over $50,000 in purchased water in that leak. The District's commissioners have taken a proactive and aggressive position in reversing this trend.

Immediate Actions Taken

Expense Reduction – The general manager retired at December 31, 2018; significant realignment of staff occurred. The salary for the General Manager position was reduced significantly, reducing both salaries and retirement benefits by a net of almost $60,000 annually.

Future Actions to be Considered

Loan Restructuring – The District will consider whether current loans can be restructured with favorable interest rates.

Water Rate Study / Rate Increase – The District will take actions to determine if a water rate increase is appropriate.

Implementation of the above listed actions is basis for the District to lessen its expenditures, better manage its debts and generate revenues to alleviate risks of future shortfalls. The District is taking proactive steps to ensure that its expenditures do not exceed its revenues. The plan set in place is the first stage in management's plan to create a balanced budget. The District should ensure that expenditures do not exceed revenues generated. The District will develop a plan that better manages, collects and generates fees and fines owed to the District. Finally, the general manager will work closely with the board commissioners to facilitate meetings and reviews of the budget and finances to ensure better accountability.

Management believes that this action plan that will enable the District to meet its obligations for twelve-month period from the date these financial statements are available to be issued.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2019 projects a year very similar to 2018. Water revenue is projected to increase based on the expectation that 2019 will be a dryer year resulting in approximately the same amount of usage as the District saw during 2018. This, however, is strictly an estimate since consumption is directly related to weather conditions which are unpredictable. Operating expenses are expected to be approximately $11,600 more than the 2018 amounts due to increases in employee wages, employee benefits and depreciation expense. As a result, the 2019 budget projects a small operating loss.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's administrative office at Thomas Lane, Corinth, Kentucky 41018.

William H. Hill

William H. Hill, Manager
Corinth Water District

CORINTH WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2018 and 2017

	2018	(Restated) 2017
Assets		
Current assets		
Cash and cash equivalents	$ 3,374	$ 12,652
Accounts receivable - customers, net of allowance	72,086	82,489
Inventories	8,380	11,886
Prepaid insurance	2,589	3,272
Total current assets	86,429	110,299
Restricted assets		
Reserve funds	104	3,604
Sinking funds	46,142	75,437
Total restricted assets	46,246	79,041
Capital assets		
Land	21,200	21,200
Buildings and improvements	105,885	105,885
Lines and equipment	6,396,649	6,373,566
Office furniture and fixtures	24,048	24,048
Transportation equipment	51,573	51,573
Total utility plant in service	6,599,355	6,576,272
Less accumulated depreciation	(3,272,974)	(3,105,551)
Total capital assets, net of depreciation	3,326,381	3,470,721
Total assets	3,459,056	3,660,061
Deferred outflow of resources		
Deferred outflows related to pensions and OPEB	114,253	91,485
Total assets and deferred outflow of resources	3,573,309	3,751,546

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

(Continued on page 10)

CORINTH WATER DISTRICT
STATEMENTS OF NET POSITION (continued from page 9)
December 31, 2018 and 2017

	2018	(Restated) 2017
Liabilities		
Current liabilities		
Accounts payable - general	26,201	26,963
Customer deposits	5,680	4,640
Line of credit - Forcht Bank	14,000	-
Withheld and accrued liabilities	10,590	11,811
Total current liabilities	56,471	43,414
Current liabilities payable from restricted assets		
Bonds payable	48,600	45,700
Note payable	3,816	3,287
Accrued interest payable	44,839	45,729
Total current liabilities payable from restriced assets	97,255	94,716
Long-term liabilities		
Note payable - Huntington Bank	14,507	18,039
Bonds payable - USDA - Water Revenue Bonds	2,013,700	2,062,300
Net unfunded pension and OPEB liability	445,597	391,955
Total long-term liabilities	2,473,804	2,472,294
Total liabilities	2,627,530	2,610,424
Deferred inflow of resources		
Deferred inflow related to pensions and OPEB	49,429	41,478
Total liabilities and deferred inflow of resources	2,676,959	2,651,902
Net position		
Invested in capital assets, net of related debt	1,245,758	1,341,395
Restricted	1,407	33,312
Unrestricted	(350,815)	(275,063)
Total net position	$ 896,350	$ 1,099,644

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

CORINTH WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For Years Ending December 31, 2018 and 2017

	2018	(Restated) 2017
Operating revenues		
Water revenue	$ 667,764	$ 680,967
Forfeited discounts	30,496	32,051
Miscellaneous service revenues	7,785	8,047
Total operating revenues	706,045	721,065
Operating expenses		
Salaries and wages - employees	150,560	140,644
Salaries and wages - officer and directors	13,946	13,870
Employee benefits	35,717	32,002
Retirement benefits	29,188	24,762
Payroll taxes	12,728	11,812
Bad debt expenses	6,582	2,921
Contractual services	54,345	65,999
Depreciation expenses	167,423	166,475
Education/training	-	1,364
Insurance expenses	12,145	13,389
Materials and supplies	20,393	22,770
Miscellaneous expenses	3,076	2,907
Purchased power	4,904	4,422
Purchased water	260,308	246,350
Taxes other than income taxes	1,442	1,516
Transportation expenses	11,401	9,600
Total operating expenses	784,158	760,803
Operating loss	(78,113)	(39,738)
Non-operating income (expense)		
Interest income	6	20
Gain on disposal of asset	-	7,044
Net effect of change in pension and OPEB expense	(38,825)	(25,460)
Interest on long-term obligations	(91,362)	(92,709)
Net non-operating expense	(130,181)	(111,105)
Net loss	(208,294)	(150,843)
Capital contributions	5,000	4,621
Change in net position	(203,294)	(146,222)
Net position, January 1	1,099,644	1,328,649
Prior period adjustment	-	(82,783)
Net position, December 31	$ 896,350	$ 1,099,644

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

CORINTH WATER DISTRICT
STATEMENTS OF CASH FLOWS
For Years Ending December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Received from customers	$ 716,448	$ 732,461
Paid to suppliers for goods and services	(370,129)	(369,879)
Paid to or on behalf of employees for services	(243,360)	(221,668)
Net change in cash for operating activites	102,959	140,914
Cash flows from investing activites		
Interest on investments	6	20
Expenditures for construction and equipment	(23,083)	(36,027)
Change in restricted cash	32,795	(3,240)
Contributions in aid of construction	5,000	4,621
Net change in cash for investing activities	14,718	(34,626)
Cash flows from capital and related financing activities		
Interest on long-term debt	(92,252)	(93,679)
Loan proceeds	15,000	23,636
Proceeds on sale of asset	-	7,044
Payments on long-term debt	(49,703)	(56,510)
Net change in cash for capital and related financing activities	(126,955)	(119,509)
Change in cash and cash equivalents	(9,278)	(13,221)
Cash and cash equivalents-beginning of year	12,652	25,873
Cash and cash equivalents-end of year	$ 3,374	$ 12,652
Reconciliation of operating income to net cash provided by operating activities		
Operating loss	$ (78,113)	$ (39,738)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	167,423	166,475
Change in operating assets and liabilities		
Decrease in receivables	10,403	11,396
Decrease (increase) in inventories	3,506	(2,433)
Decrease in prepaid assets	683	253
(Decrease) increase in accounts payable	(762)	4,779
(Decrease) increase in withheld and accrued liabilities	(1,221)	1,422
Decrease in customer deposits	1,040	(1,240)
Net cash provided by operating activites	$ 102,959	$ 140,914
Supplemental information		
Interest paid	$ (92,252)	$ (93,679)

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

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

Corinth Water District (District) is a water utility, which provides service to residential and commercial customers in Grant, Pendleton, and Harrison Counties in Kentucky. The District was created by the Grant County Court on January 11, 1965 under the provisions of chapter 74 of the Kentucky Revised Statutes ("KRS").

Regulatory Requirements
The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Basis of Accounting
The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments in the United States of America.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, 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 and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

Allowance for Bad Debts
The District uses the allowance method to account for bad debts. The balances of the allowance for bad debts were $2,600 and $3,700 at December 31, 2018 and 2017, respectively.

Cash Equivalents
For purposes of the balance sheets and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets
In accordance with Kentucky Revised Statutes 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government's website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

Inventories
Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment
Property, plant, transmission lines, and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of results of operations.

Capital Contributions
In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. During 2018 and 2017 these contributions consisted of the following:

Source	2018	2017
Tap in fees and construction costs paid by new customers	$ 5,000	$ 4,621
Total capital contributions received in aid of construction	$ 5,000	$ 4,621

Purchased Water Costs
The District is dependent on the City of Williamstown as its sole supplier of water. On September 1, 2004, the District signed an agreement with the City of Williamstown to extend this water service agreement for the next 42 years.

Income Tax Status
The District is exempt from federal and state income taxes since it is a political subdivision of the Grant County Court. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates
The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues
Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking and savings accounts and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the statements of net position as "Cash and Cash Equivalents" and "Restricted Assets". The balances for "Cash and Cash, Equivalents" were $3,374 and $12,652 at December 31, 2018 and 2017, respectively. The balances for "Restricted Assets" were $46,246 and $79,041 at December 31, 2018 and 2017, respectively.

The District's investment policy allows investments only in the form of savings accounts and certificates of deposit at local banks in Grant County, Kentucky. The District holds funds at Forcht Bank. The FDIC insures bank deposits for amounts up to $250,000 per banking institution. Thus, all of the $49,620 in District funds are insured. In accordance with GASB 40, there is no market risk on these savings account investments.

NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net position. Invested in capital assets, net of related debt, consists of all capital assets net of accumulated depreciation and reduced by outstanding debts that are attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories.

The following amounts are included in restricted net position at December 31, 2018 and 2017:

	2018	2017
Reserve fund	$ 104	$ 3,604
Sinking fund	46,142	75,437
Accrued interest on debt	(44,839)	(45,729)
Total Restricted Net Position	$ 1,407	$ 33,312

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-40 years
Furniture and fixtures	5-20 years
Machinery and equipment	3-10 years
Transportation equipment	5 years
Transmission lines and distribution systems	10-40 years

Asset Type	Balance at December 31, 2017	Additions	Retirements	Balance at December 31, 2018
Land	$ 21,200	$ -	$ -	$ 21,200
Buildings and improvements	105,885	-	-	105,885
Distribution reservoirs and pipes	409,285	-	-	409,285
Furniture and fixtures	24,048	-	-	24,048
Hydrants	122,814	-	-	122,814
Meter system and installation	936,794	5,942	-	942,736
Supply mains	13,191	-	-	13,191
Tools and equipment	12,022	6,995	-	19,017
Transmission mains	4,879,460	10,146	-	4,889,606
Transportation equipment	51,573	-	-	51,573
Subtotal	6,576,272	23,083	-	6,599,355
Accumulated depreciation	(3,105,551)	(167,423)	-	(3,272,974)
Capital assets, net	$ 3,470,721	$ (144,340)	$ -	$ 3,326,381

NOTE 5 – WATER REVENUE BONDS, SERIES 1998

On November 5, 1998, the District issued a water revenue bond in the amount of $526,000. The interest rate is 4.75% per year. Interest is payable semi-annually on the first day of January and July of each year. Collateral includes water lines, meters and pumping equipment of the District. The first payments were due January 1, 2001 and mature through 2038.

The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2019	4.75%	$ 12,000	$ 18,145	$ 30,145
2020	4.75%	12,000	17,575	29,575
2021	4.75%	13,000	16,981	29,981
2022	4.75%	14,000	16,340	30,340
2023	4.75%	14,000	15,675	29,675
2024-2028	4.75%	83,000	67,236	150,236
2029-2033	4.75%	105,000	45,007	150,007
2034-2038	4.75%	135,000	16,649	151,649
Totals		$ 388,000	$ 213,608	$ 601,608

NOTE 6 – WATER REVENUE BONDS, SERIES 2002

On October 25, 2002, the District issued water revenue bonds in the amount of $485,000. The interest rate is 4.625% per year. Interest is payable semi-annually on the first day of January and July of each year. Principal installments mature in 2005 through 2042. The first payments were due January 2005. Collateral includes water lines, meters and pumping equipment of the District.

The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2019	4.625%	$ 9,100	$ 17,980	$ 27,080
2020	4.625%	9,600	17,548	27,148
2021	4.625%	10,000	17,094	27,094
2022	4.625%	10,500	16,620	27,120
2023	4.625%	11,000	16,123	27,123
2024-2028	4.625%	63,300	72,294	135,594
2029-2033	4.625%	79,800	55,824	135,624
2034-2038	4.625%	100,800	35,035	135,835
2039-2042	4.625%	99,200	9,444	108,644
Totals		$ 393,300	$ 257,962	$ 651,262

NOTE 7– WATER REVENUE BONDS, SERIES 2005

On September 9, 2005, the District issued water revenue bonds in the amount of $1,532,000. These bonds were issued to finance the construction of a waterline extension and to pay off the capital lease balance of $890,000 previously held by the District. The interest rate is 4.125% per year. Interest is payable semi-annually on the first day of January and July of each year. Principal installments mature in 2007 through 2044. Collateral includes water lines, meters and pumping equipment of the District.

The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2019	4.125%	$ 27,500	$ 52,274	$ 79,774
2020	4.125%	28,500	51,119	79,619
2021	4.125%	30,000	49,913	79,913
2022	4.125%	31,000	48,655	79,655
2023	4.125%	32,500	47,345	79,845
2024-2028	4.125%	185,500	214,903	400,403
2029-2033	4.125%	230,000	172,220	402,220
2034-2038	4.125%	284,500	119,345	403,845
2039-2043	4.125%	352,500	53,881	406,381
2044	4.125%	79,000	1,629	80,629
Totals		$ 1,281,000	$ 811,284	$ 2,092,284

NOTE 8 – CAPITAL LEASE

In November 2012, the District entered into a capital lease agreement with the City of Corinth, Kentucky, a related party, for the purchase of land and a building, which is being leased back by the City. The leased property of $69,000 is included in land and buildings and improvements on the fixed asset summary in Note 4. Amortization of the lease is included in depreciation expense. The leased property represents security on this lease, and no interest is being charged. The balance of this capital lease was paid in full as of December 31, 2017.

NOTE 9 – NOTE PAYABLE

On March 13, 2017, the District signed a 75-month loan agreement with Huntington Bank for the purchase of a pick-up truck in the amount of $23,636 at a fixed annual interest rate of 7.0744%. Principal and interest are payable in seventy-five (75) monthly installments in the amount of $393 each and any outstanding principal and accrued interest will be due and payable in full on the maturity date of June 13, 2023. This loan is secured by the pick-up truck. The future minimum note payments are as follows:

Year	Principal Amount	Interest Amount	Total Note Payments
2019	$ 3,816	$ 1,179	$ 4,995
2020	3,790	920	4,710
2021	4,074	636	4,710
2022	4,376	334	4,710
2023	2,267	47	2,314
Totals	$ 18,323	$ 3,116	$ 21,439

NOTE 10 – LINE OF CREDIT

The District opened a $15,000 unsecured line of credit with Forcht Bank on June 20, 2018, which matures on June 20, 2019 at a variable interest rate. At December 31, 2018, the amount drawn on the line of credit was $14,000, leaving an available balance of $1,000. The amount drawn is payable at a variable interest rate of 6.00% at December 31, 2018.

NOTE 11 - COUNTY EMPLOYEES' RETIREMENT SYSTEM

Plan description - Employees are covered by CERS (County Employees' Retirement System), a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statue ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from http://kyret.ky.gov/.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on ***Non-Hazardous*** duty and ***Hazardous*** duty covered-employee classifications. The Corinth Water District has only Non-Hazardous employees.

PENSION PLAN

Non-Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of 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 or 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 75% of the decedent's monthly final rate or pay and any dependent child will receive 50% of the decedent's monthly final rate of pay up to 75% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	5%
Tier 2	5%
Tier 3	5%

Contributions

For non-hazardous duty employees, the District contributed 19.18%, of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the period of January 1, 2018 to June 30, 2018. The District contributed 21.48%, of which 16.22% was for the pension fund and 5.26% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the period of July 1, 2018 to December 31, 2018.

The District made all required contributions for the non-hazardous Plan obligation for the fiscal year in the amount of $29,188, of which $22,038 was for the pension fund and $7,150 was for the health insurance fund.

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

At December 31, 2018, the District reported a liability of $345,016 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the District's non-hazardous employer allocation proportion was 0.00567% of the total CERS non-hazardous duty employees. For the year ended December 31, 2018, the District recognized pension expense of $30,693 in addition to its $22,038 pension contribution. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 11,253	$ (5,050)
Net difference between projected actual earnings on plan investments	16,043	(20,180)
Changes of assumptions	33,718	-
Changes in proportion and differences between contributions and proportionate share of contributions	13,221	(5,118)
Contributions subsequent to the measurement date	11,271	-
	$ 85,506	$ (30,348)

The District's contributions subsequent to the measurement date of $11,271 will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	Net Deferral
2019	$ 29,074
2020	18,198
2021	(1,533)
2022	(1,852)
	$ 43,887

Actuarial Assumptions

The total pension liability in the June 30, 2018 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 increase	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 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 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 weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Changes of Assumptions

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

- The assumed investment rate was increased from 7.50% to 6.25%.
- The assumed rate of inflation was increased from 3.25% to 2.30%.
- The assumed rate of wage inflation was increased from 4.00% to 3.05%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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

Asset Class	CERS Pensions (Haz & Non-Haz) Target Allocation	Long Term Expected Nominal Return
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%

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

	Proportionate Share of Net Pension Liability		
	1% Decrease 5.25%	Current Rate 6.25%	1% Increase 7.25%
Non-hazardous	$ 434,339	$ 345,016	$ 270,178

HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was $12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was $12.99 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the period January 1, 2018 to June 30, 2018, was 4.70% of covered-employee payroll for non-hazardous duty employees, and for the period July 1, 2018 to December 31, 2018, was 5.26% of the covered employee payroll, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were $7,150 for non-hazardous duty employees for the year ended December 31, 2018.

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

At December 31, 2018, the District reported a liability of $100,581 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At December 31, 2018, the District's proportion of the non-hazardous plan was .000567%.

For the year ended December 31, 2018, the District recognized an OPEB expense of $8,131. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ -	$ (11,721)
Net difference between projected actual earnings on plan investments	-	(6,928)
Changes of assumptions	20,088	(232)
Changes in proportion and differences between contributions and proportionate share of contributions	5,004	(200)
Contributions subsequent to the measurement date	3,655	-
	$ 28,747	$ (19,081)

The District's contributions subsequent to the measurement date, $3,655 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	Net Deferral
2019	$ 1,256
2020	1,256
2021	1,256
2022	2,602
2023	21
Thereafter	(380)
	$ 6,011

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, 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, percent of pay
Amortization period:	25 years, closed
Payroll growth rate:	2.00%
Investment return:	6.25%
Inflation	2.30%

Salary increases:	3.05%, average
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, 2018 valuation were based on the results of an actuarial experience study calculated as of June 30, 2015.

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 expected 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:

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

Asset Class	CERS Health Insurance Target Allocation	Long Term Expected Nominal Return
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%

Changes of Assumptions

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

- The assumed investment return 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 salary increase was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

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% for the non-hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required 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.

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

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.85% for the non-hazardous plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.84%	5.84%	6.84%
Net OPEB liability, non-hazardous	$ 130,639	$ 100,581	$ 74,977

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

The following presents the 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 healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate Share of Net OPEB Liability		
Healthcare cost trend rate	1.00% Decrease	Current Rate	1.00% Increase
Net OPEB liability, non-hazardous	$ 20,386	$ 26,577	$ 34,625

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

NOTE 12 – RELATED PARTY TRANSACTIONS

Tara Wright, the Manager of the Water District, acts as both the Manager of the Water District and the City Clerk of the City of Corinth. The District has normal business relations with the City of Corinth. Some minor reimbursable expenses have been paid by one entity and reimbursed by/to the other.

The District paid $1,331 and $1,629 during 2018 and 2017, respectively, to the brother of a District commissioner for meter testing services.

NOTE 13 – RISKS/COMMITMENTS/CONTINGENCIES

Corinth Water District depends upon the credit given to a large group of individual customers. The revenue from individuals is significantly larger than the revenue from corporations. Therefore, there is considerably less cash flow risk from the failure of a single customer to pay.

NOTE 14 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement No. 81 – *Irrevocable Split-Interest Agreements* – This statement is not currently applicable to the District.

Statement No. 85 – *Omnibus 2017*

Statement No. 86 – *Certain Debt Extinguishment Issues*

NOTE 15 – FUTURE ACCOUNTING STANDARDS

Statement No. 83 – *Certain Asset Retirement Obligations* – Implementation in FY 2019

Statement No. 84 – *Fiduciary Activities* – Implementation in FY 2020

Statement No. 87 – *Leases* – Implementation in FY 2021

Statement No. 88 – *Certain Disclosures Related to Debt* – Implementation in FY 2019

Statement No. 89 – *Accounting for Interest Cost* – Implementation in FY 2021

Statement No. 90 – *Majority Equity Interests* – Implementation in FY 2019

NOTE 16 – PRIOR PERIOD ADJUSTMENT

The District has recorded an adjustment to the Beginning Net Position of ($82,783) at December 31, 2018. This adjustment accounts for the estimated net OPEB liability at June 30, 2017 and is being recorded in accordance with Government Accounting Standards Board Statement No. 75.

NOTE 17 – DISTRICT'S FINANCIAL CONDITIONS

The District sustained net losses of ($208,294) and ($150,843) for the year's ended December 31, 2018 and 2017, respectively.

The District's commissioners have taken a proactive and aggressive position in reversing this trend. A complete financial breakdown and internal review was accomplished. After identifying areas in the budget that needed to be addressed, the commissioners and general manager took the following steps to address the issues.

Immediate Actions Taken

Expense Reduction – The general manager retired at December 31, 2018, significant realignment of staff occurred. The salary for the General Manager position was reduced significantly, reducing both salaries and retirement benefits by a net of almost $60,000 annually.

Future Actions to be Considered

Loan Restructuring – The District will consider whether current loans can be restructured with favorable interest rates.

Water Rate Study / Rate Increase – The District will take actions to determine if a water rate increase is appropriate.

Implementation of the above listed actions is basis for the District to lessen its expenditures, better manage its debts and generate revenues to alleviate risks of future shortfalls. The District is taking proactive steps to ensure that its expenditures do not exceed its revenues. The plan set in place is the first stage in management's plan to create a balanced budget. The District should ensure that expenditures do not exceed revenues generated. The District will develop a plan that better manages, collects and generates fees and fines owed to the District. Finally, the general manager will work closely with the board commissioners to facilitate meetings and reviews of the budget and finances to ensure better accountability.

Management believes that this action plan that will enable the District to meet its obligations for twelve-month period from the date these financial statements are available to be issued.

NOTE 18 - SUBSEQUENT EVENTS

Management has considered the need to recognize or disclose subsequent events through July 24, 2019, which represents the date on which the financial statements were available to be issued. The District did not have any events subsequent to December 31, 2018 through July 24, 2019 to disclose.

CORINTH WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN-NON-HAZARDOUS
Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.00567%	0.005282%	0.005460%	0.005910%							
Proportionate share of the net pension liability (asset)	$ 345,016	$ 309,172	$ 268,880	$ 254,132							
Covered payroll in year of measurement (July - June)	$ 140,419	$ 128,604	$ 130,276	$ 137,904							
Share of the net pension liability (asset) as a percentage of its covered payroll	245.70%	240.41%	206.39%	184.28%							
Plan fiduciary net position as a percentage of total pension liability	53.54%	55.50%	59.97%	66.80%							

Schedule of the District's Pension Fund Contributions
County Employees' Retirement System (CERS)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 22,038	$ 17,940	$ 16,180	$ 17,583	$ 19,115						
Actual contribution	22,038	17,940	16,180	17,583	19,115						
Contribution deficiency (excess)	-	-	-	-	-						
Covered payroll in District's fiscal year (Jan. - Dec.)	$ 143,846	$ 130,789	$ 127,566	$ 132,430	$141,300						
Contributions as a percentage of covered payroll	15.32%	13.72%	12.68%	13.28%	13.53%						

Notes to Required Supplementary Information
for the Year Ended December 31, 2018

The net pension liability as of December 31, 2018, is based on the June 30, 2018, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 10 in the Notes to the Financial Statements.

CORINTH WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN-NON-HAZARDOUS
Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.00567%										
Proportionate share of the net pension liability (asset)	$ 100,581										
Covered payroll in year of measurement (July - June)	$ 140,419										
Share of the net pension liability (asset) as a percentage of its covered payroll	71.63%										
Plan fiduciary net position as a percentage of total pension liability	57.62%										

Schedule of the District's Pension Fund Contributions
County Employees' Retirement System (CERS)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 7,150	$ 6,491									
Actual contribution	7,150	6,491									
Contribution deficiency (excess)	-	-									
Covered payroll in District's fiscal year (Jan. - Dec.)	$ 143,846	$ 130,789									
Contributions as a percentage of covered payroll	4.97%	4.96%									

Notes to Required Supplementary Information
for the Year Ended December 31, 2018

The net OPEB liability as of December 31, 2018, is based on the June 30, 2018, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 10 in the Notes to the Financial Statements.

Van Gorder, Walker & Co., Inc.
Certified Public Accountants

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

To the Board of Commissioners
Corinth 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 business-type activities of Corinth Water District, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Corinth Water District's basic financial statements and have issued our report thereon dated July 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Corinth 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 Corinth Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Corinth Water District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described below, that we consider significant deficiencies.

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.

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Lack of Segregation of Duties

Condition: We noted that, due to the size of the District and financial considerations, the executing and recording of transactions are performed by the same person.

Criteria: The process of executing a transaction should be segregated from the process of recording the transaction.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account.

Recommendation: Internal controls should continue to be implemented to segregate the duties of the personnel. Controls should be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corinth 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 below.

Not in Compliance with Bond Covenant

Condition: We noted that at December 31, 2018, the total net revenue as defined by the Bond Resolution with Rural Development of the Department of Agriculture of the United States of America (RD), Article 5. Covenant of District, Section 501. Rates and Charges, are less than the total average debt service remaining multiplied by the rate covenant multiplier of 120%. We also noted in our compliance report dated July 16, 2018, that the District was not in compliance with the bond covenant at December 31, 2017.

Criteria: Per the Bond Covenant, the total net revenue must be greater than the total minimum average debt service for the District to be in compliance.

Effect: Compliance is a necessary part of any system of internal control. Non-compliance with the bond covenant is an issue because the District runs on a very close margin, and any unforeseen maintenance or operations expense could increase expenses and reduce the total net revenue below the total minimum average debt service.

Recommendation: Bond covenant compliance should be monitored quarterly by the District's Board of Commissioners to make sure that the District is able to adequately meet the requirements of the Bond Resolution.

Van Gorder, Walker & Co., Inc.
Certified Public Accountants

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.

Van Gorder, Walker + Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
July 24, 2019