

**EAST CASEY COUNTY WATER DISTRICT**  
**Liberty, Kentucky**

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**FINANCIAL STATEMENTS**  
**December 31, 2019**

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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 year ended December 31, 2019, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Casey County Water District, as of December 31, 2019, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the pension and other post-employment benefit schedules on pages 17-20 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 March 26, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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  
March 26, 2020

**EAST CASEY COUNTY WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2019**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 454,514
Investments - certificates of deposit	866,006
Customer accounts receivable, net	155,112
Accrued interest receivable	5,056
Other receivable	<u>4,330</u>
Total current assets	<u>1,485,018</u>
Restricted assets	
Investments - certificates of deposit	<u>38,630</u>
Capital assets	
Land	88,044
Property, plant and equipment, net	<u>11,860,182</u>
Total capital assets	<u>11,948,226</u>
Total assets	<u>13,471,874</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows - pension	127,035
Deferred outflows - OPEB	<u>55,030</u>
Total deferred outflows of resources	<u>182,065</u>
Total assets and deferred outflows of resources	<u>\$ 13,653,939</u>

**LIABILITIES**

Current liabilities	
Accounts payable	\$ 106,544
Taxes payable	12,069
Customer deposits payable	27,700
Accrued interest payable	7,330
Current portion of long-term debt	<u>171,647</u>
Total current liabilities	<u>325,290</u>
Noncurrent liabilities	
Net pension liability	711,955
Net OPEB liability	170,231
KIA revolving loan payable	772,073
Bonds payable	<u>2,309,604</u>
Total noncurrent liabilities	<u>3,963,863</u>
Total liabilities	<u>4,289,153</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows - pension	18,679
Deferred inflows - OPEB	<u>54,919</u>
Total deferred inflows of resources	<u>73,598</u>

**NET POSITION**

Net investment in capital assets	8,694,902
Restricted for reserves	38,630
Unrestricted	<u>557,656</u>
Total net position	<u>9,291,188</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,653,939</u>

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

**EAST CASEY COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET POSITION**  
for the year ended December 31, 2019

<b>OPERATING INCOME</b>	
Water sales	\$ 1,746,231
Late charges	46,200
Other revenue	<u>26,155</u>
Total operating income	<u>1,818,586</u>
<b>OPERATING EXPENSES</b>	
Water purchases	961,635
Salaries	253,713
Employee benefits	240,725
Taxes	22,554
Office expense and postage	40,325
Insurance	30,987
Transportation expense	27,246
Line upkeep	60,659
Contract labor	26,498
Utilities and telephone	102,691
Legal and professional	28,104
Miscellaneous	24,272
Regulatory commission expenses	<u>3,344</u>
Total operating expenses	<u>1,822,753</u>
Operating income (loss) before depreciation	(4,167)
Depreciation expense	<u>(310,611)</u>
<b>OPERATING INCOME (LOSS)</b>	<b>(314,778)</b>
Non-operating income (expenses)	
Interest income	21,520
Interest expense	(90,311)
Long-term debt service costs	(8,898)
Gain (loss) on disposal of assets	<u>(95,295)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(487,762)</b>
Capital Contributions	
Tap fees	39,890
Other	<u>8,662</u>
Change in net position	(439,210)
Net position, beginning of year	<u>9,730,398</u>
<b>NET POSITION, END OF YEAR</b>	<b>\$ <u>9,291,188</u></b>

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

**EAST CASEY COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
for the year ended December 31, 2019**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,807,989
Payment to suppliers	(1,278,284)
Payment for employee services and benefits	<u>(434,058)</u>
Net cash provided (used) by operating activities	<u>95,647</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal payments	(163,281)
Interest payments	(90,535)
Long-term debt service costs	(8,898)
Additions to capital assets	(29,970)
Tap fees	39,890
Other capital contributions	<u>4,332</u>
Net cash provided (used) by capital and related financing activities	<u>(248,462)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Redemption of certificates of deposit	169,364
Interest income	<u>22,467</u>
Net cash provided (used) by investing activities	<u>191,831</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	39,016
Cash and cash equivalents, beginning of year	<u>415,498</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 454,514</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (314,778)
Noncash items included in operating income:	
Depreciation	310,611
Net pension liability	84,990
Net OPEB liability	1,888
Changes in assets and liabilities:	
(Increase) decrease in receivables	(10,597)
Increase (decrease) in accounts payable	23,776
Increase (decrease) in customer deposits	(1,125)
Increase (decrease) in taxes/other payables	<u>882</u>
Net cash provided by operating activities	<u>\$ 95,647</u>
<b>Supplemental disclosure of cash flow information:</b>	
Non-cash capital and related financing information:	
Amortization on bond premium	<u>\$ 1,273</u>

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

**EAST CASEY COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

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**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 consists of reserves for 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, capital contributions and gains and losses on sales of capital assets.

Capital 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, 2019 was \$797,036. The District charges all uncollected accounts directly against current earnings. Charges against earnings for the year ended December 31, 2019 was \$66,874.

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.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 March 26, 2020, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the year ended December 31, 2019, have not been evaluated by the District.



**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480. The District does not have a formal investment policy but follows Kentucky Revised Statutes for investing funds.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The East Casey County Water District deposits at December 31, 2019, 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 \$1,363,505 at December 31, 2019; \$500,000 was covered by FDIC and the remaining \$863,505 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 fiscal year follows:

	<b>Balance 12/31/2018</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12/31/2019</b>
Capital assets not depreciated:				
Land	\$ 87,044	\$ 1,000	\$ -	\$ 88,044
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>87,044</u>	<u>1,000</u>	<u>-</u>	<u>88,044</u>
Capital assets that are depreciated:				
Property, plant and equipment	<u>19,021,073</u>	<u>28,970</u>	<u>152,095</u>	<u>18,897,948</u>
Less accumulated depreciation	<u>6,783,955</u>	<u>310,611</u>	<u>56,800</u>	<u>7,037,766</u>
Totals	<u>12,237,118</u>	<u>(281,641)</u>	<u>95,295</u>	<u>11,860,182</u>
Capital assets, net	<u>\$ 12,324,162</u>	<u>\$ (280,641)</u>	<u>\$ 95,295</u>	<u>\$ 11,948,226</u>

**4. LONG-TERM DEBT**

In December 2014, the Kentucky Bond Corporation issued Series 2014E Revenue Bonds for the District 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 which began in February 2016. The bonds bear interest at an average rate of 3.63%.

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**4. LONG-TERM DEBT (CONTINUED)**

The District has obtained a Federally Assisted Drinking Water Revolving Loan from the Kentucky Infrastructure Authority to fund the Various Waterline Extensions Project. The project was completed during 2016, and no draws have been made since. At project completion in 2016, final loan less 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, 2019, are as follows:

Year Ending	Principal	Interest	Fees	Payment
2020	\$ 171,647	\$ 87,983	\$ 8,493	\$ 268,123
2021	172,956	83,782	8,064	264,802
2022	178,020	79,552	7,631	265,203
2023	183,505	75,179	7,186	265,870
2024	184,412	70,651	6,727	261,790
2025-2029	954,176	281,877	26,555	1,262,608
2030-2034	869,689	158,317	14,986	1,042,992
2035-2039	<u>514,732</u>	<u>43,031</u>	<u>4,784</u>	<u>562,547</u>
	<u>3,229,137</u>	<u>\$ 880,372</u>	<u>\$ 84,426</u>	<u>\$ 4,193,935</u>
Net pension liability	711,955			
Net OPEB liability	170,231			
Premium on Refunding	<u>24,187</u>			
	<u>\$ 4,135,510</u>			

The following is a summary of long-term liabilities for the year ended December 31, 2019:

	Interest Rate	Balance January 1, 2019	Issued	Payments	Balance December 31, 2019
KY Bond Corporation	3.63%	\$ 2,524,584	\$ -	\$ 115,000	\$ 2,409,584
Premium on Refunding	-	25,460	-	1,273	24,187
Net pension liability	-	603,671	108,284	-	711,955
Net OPEB liability	-	175,968	-	5,737	170,231
KIA Revolving Loan	1.00%	<u>866,561</u>	<u>-</u>	<u>47,008</u>	<u>819,553</u>
		<u>\$ 4,196,244</u>	<u>\$ 108,284</u>	<u>\$ 169,018</u>	<u>\$ 4,135,510</u>

**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, 2019.

**EAST CASEY COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

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**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, 2019, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are 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, 2019, participating employers contributed 21.48% through June 30th and 24.06% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 6. Plan members contributed 16.22% to the pension trust through June 30th and 19.30%, thereafter for non-hazardous job classifications for the year ended December 31, 2019. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are 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 5.00% 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.

For the year ended December 31, 2019, the District contributed \$45,071 or 100% of the required contribution for non-hazardous job classifications.

*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.

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**5. RETIREMENT PLAN (CONTINUED)**

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 and 4 years service
	Reduced retirement	At least 5 years service and 55 years old or 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 to 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 to 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' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2019, the District reported a liability of \$711,955 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and was rolled forward using generally accepted actuarial procedures. 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, 2019, the District's proportion was .01012 percent, which was an increase of .00021 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized pension expense of \$130,061. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 18,178	\$ 3,008
Changes of assumptions	72,058	-
Net difference between projected and actual earnings on Plan investments		11,477
Changes in proportion and differences between District contributions and proportionate share of contributions	12,243	4,194
District contributions subsequent to the measurement date	24,556	-
<b>Total</b>	<b>\$ 127,035</b>	<b>\$ 18,679</b>

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**5. RETIREMENT PLAN (CONTINUED)**

The \$24,556 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending December 31,</b>		
2020	\$	53,789
2021	\$	20,448
2022	\$	8,750
2023	\$	813

*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:

Inflation	2.30%
Salary increases	3.30% to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2019 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
<b>Total</b>	<b>100.00%</b>	<b>6.25%</b>

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**5. RETIREMENT PLAN (CONTINUED)**

*Discount Rate* – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute funds as required by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

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

	<u>Discount rate</u>		<u>District's proportionate share of net pension liability</u>
1% decrease	5.25%	\$	890,454
Current discount rate	6.25%	\$	711,955
1% increase	7.25%	\$	563,178

*Payable to the Pension Plan* – The District reported a payable of \$6,578 as of December 31, 2019, for the outstanding amount of contributions to the pension plan required for the year then ended. The payable includes both the pension and insurance contribution allocation.

**6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Plan Description* – As more fully described in Note 5, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions* – As more fully described in Note 5, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2019, the employer's contribution was 5.26% through June 30th and 4.76% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2019, the District contributed \$12,709, or 100% of the required contribution for non-hazardous job classifications.

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*Benefits* – CERS provides health insurance benefits to Plan employees and beneficiaries.

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

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

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2019, the District reported a liability for its proportionate share of the net OPEB liability of \$170,231. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2019 was .01012 percent, which was an increase of .00021 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized OPEB expense of \$18,377. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ -	\$ 51,363
Changes of assumptions	41,691	337
Net difference between projected and actual earnings on Plan investments	1,121	-
Changes in proportion and differences between District contributions and proportionate share of contributions	2,505	3,219
District contributions subsequent to the measurement date	<u>9,713</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 55,030</u></b>	<b><u>\$ 54,919</u></b>

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

The \$9,713 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020. This includes an adjustment of \$3,655 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

**Year ending December 31,**

2020	\$	(1,561)
2021	\$	(1,561)
2022	\$	843
2023	\$	(3,761)
2024	\$	(3,098)
2025	\$	(464)

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.30%	
Salary increases	3.30 to 10.30%, average, including inflation	
Investment rate of return	6.25%, net of Plan investment expense, including inflation	
Healthcare Trend Rates		
Pre – 65	Initial trend starting at 7.00% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	
Post – 65	Initial trend starting at 4.05% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2019 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019.



**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
<b>Total</b>	<b>100.00%</b>	<b>6.25%</b>

*Discount Rate* – The discount rate used to measure the total OPEB liability was 5.68% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2019, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index". As of June 30, 2019, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index". However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

	<b>Discount rate</b>	<b>Proportionate share of net OPEB liability</b>
1% decrease	4.68%	\$ 228,039
Current discount rate	5.68%	\$ 170,231
1% increase	6.68%	\$ 122,600

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

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**6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

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

	<b>Proportionate share of net OPEB liability</b>
1% decrease	\$ 126,601
Current trend rate	\$ 170,231
1% increase	\$ 223,136

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

**7. 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
District's proportion of the net pension liability	0.00977%	0.00971%	0.00963%	0.01012%	0.00991%	0.01012%
District's proportionate share of the net pension liability (asset)	\$ 317,000	\$ 417,568	\$ 474,260	\$ 592,296	\$ 603,671	\$ 711,955
District's covered employee payroll	\$ 224,206	\$ 229,730	\$ 240,266	\$ 257,062	\$ 245,659	\$ 255,348
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	141.39%	181.76%	197.39%	230.41%	245.74%	278.82%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%	50.45%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

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

The measurement date of the net pension liability is 6 months preceding the calendar year of the District.

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

**EAST CASEY COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY  
SCHEDULE OF CONTRIBUTIONS - PENSION  
Last Seven Calendar Years**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Contractually required employer contribution	\$ 27,976	\$ 29,813	\$ 29,587	\$ 34,089	\$ 34,090	\$ 38,922	\$ 45,071
Contributions relative to contractually required employer contribution	<u>27,976</u>	<u>29,813</u>	<u>29,587</u>	<u>34,089</u>	<u>34,090</u>	<u>38,922</u>	<u>45,071</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 225,527	\$ 224,349	\$ 236,962	\$ 257,403	\$ 239,758	\$ 253,314	\$ 253,713
Employer contributions as a percentage of covered-employee payroll	12.40%	13.29%	12.49%	13.24%	14.22%	15.37%	17.76%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

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

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

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

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	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
District's proportion of the net OPEB liability	0.01012%	0.01012%	0.00991%	0.01012%
District's proportionate share of the net OPEB liability (asset)	\$ 159,562	\$ 203,427	\$ 175,968	\$ 170,231
District's covered employee payroll	\$ 240,266	\$ 257,062	\$ 245,659	\$ 255,348
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	66.41%	79.14%	71.63%	66.67%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

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

The measurement date of the net OPEB liability is 6 months preceding the calendar year of the District.

**EAST CASEY COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY  
SCHEDULE OF CONTRIBUTIONS - OPEB  
Last Seven Calendar Years**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Contractually required employer contribution	\$ 15,362	\$ 11,174	\$ 11,147	\$ 12,068	\$ 11,304	\$ 12,627	\$ 12,709
Contributions relative to contractually required employer contribution	<u>15,362</u>	<u>11,174</u>	<u>11,147</u>	<u>12,068</u>	<u>11,304</u>	<u>12,627</u>	<u>12,709</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 225,527	\$ 224,349	\$ 236,962	\$ 257,403	\$ 239,758	\$ 253,314	\$ 253,713
Employer contributions as a percentage of covered-employee payroll	6.81%	4.98%	4.70%	4.69%	4.71%	4.98%	5.01%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

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

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



**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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 26, 2020.

**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 opinion 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2019-001 and 2019-002).

**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 Responses to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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  
Lexington, Kentucky  
March 26, 2020

**EAST CASEY COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2019**

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**FINDING:**

**2019-001 – Internal Control Over Financial Reporting (Recurring) (Material)**

**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 draft the financial statements, including related note disclosures, 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.

**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. Management has reviewed and accepts responsibility for the financial statements.

**2019-002 – Customer Deposit and Cut-Off Policies (Material)**

**Criteria:**

Internal controls within the District should ensure that policies and procedures effective in helping to reduce the amount of uncollectible charges and bad debt write-offs the District incurs, are in place and consistently applied.

**Condition:**

Throughout the year, the District accumulated approximately \$65,000 of customer charges that were deemed uncollectible.

**Cause:**

At the present time, the District refunds customer deposits annually, regardless of a customer's payment history. In addition, customer cut-offs are not consistently performed and are often performed after substantial accumulation of past due amounts. Approvals for payment plans and decisions not to cut a customer off are also not adequately documented.

**Effect:**

The District's deposit policy does not allow for sufficient deposits to remain on hand to cover bad debts. This leaves the District vulnerable to customers who do not pay. In addition, the inconsistent application of cut-off procedures and lack of appropriate approval and documentation of determinations not to cut a customer off means the District could often be providing water to customers that will never pay.

**EAST CASEY COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2019**

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**2019-002 – Customer Deposit and Cut-Off Policies (Material) (Continued)**

**Recommendation:**

We recommend that the District revise its customer deposit policy to provide itself with assurance of at least partial coverage of final billings, especially for customers who have a history of late or non-payment. More importantly, we recommend that the District modify its cut-off procedures to cut off all past due customer accounts after a pre-determined amount of time, unless the customer has established a formal payment plan. We recommend that such payment plans, as well as decisions not to disconnect a customer, be approved by management and that the approval for these policy exceptions be properly documented.

**Response:**

Management is looking closely at the recommendations and implementing steps to improve our customer deposits and delinquent shut off policies.