

**KNOTT COUNTY WATER AND SEWER DISTRICT
Vicco, Kentucky**

**FINANCIAL STATEMENTS
December 31, 2019 and 2018**

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Knott County Water and Sewer District
Vicco, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Knott County Water and Sewer District (the District), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 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 Knott County Water and Sewer District, as of December 31, 2019 and 2018, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 22–25 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 require 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, And Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The budgetary comparison schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 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, PLLC
Lexington, Kentucky
March 25, 2020

KNOTT COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION
December 31,

ASSETS	2019	2018
Current assets		
Cash and cash equivalents	\$ 69,283	\$ 148,498
Customer accounts receivable, net	249,807	250,381
Prepaid expenses	14,207	19,082
Grant receivable	<u>114,870</u>	<u>138,482</u>
Total current assets	<u>448,167</u>	<u>556,443</u>
Restricted assets		
Cash and cash equivalents	540,437	657,278
Certificate of deposit	<u>305,583</u>	<u>-</u>
Total restricted assets	<u>846,020</u>	<u>657,278</u>
Capital assets		
Land	150,585	150,585
Construction-in-progress	606,656	332,260
Utility plant and equipment, net	<u>51,363,418</u>	<u>50,751,089</u>
Capital assets, net	<u>52,120,659</u>	<u>51,233,934</u>
Total assets	<u>53,414,846</u>	<u>52,447,655</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	275,622	199,797
Deferred outflows - OPEB	<u>132,398</u>	<u>82,640</u>
Total deferred outflows of resources	<u>408,020</u>	<u>282,437</u>
Total assets and deferred outflows of resources	<u>\$ 53,822,866</u>	<u>\$ 52,730,092</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 79,272	\$ 40,854
Accrued compensation	21,864	25,688
Payroll liabilities	27,677	23,631
Accrued interest	808	5,950
Other current liabilities	184,924	290,687
Current portion of long-term debt	<u>64,071</u>	<u>66,634</u>
Total current liabilities	<u>378,616</u>	<u>453,444</u>
Noncurrent liabilities		
Net pension liability	1,326,432	1,072,442
Net OPEB liability	317,149	312,627
Notes payable	225,000	230,400
Bonds payable	<u>93,050</u>	<u>152,021</u>
Total long-term liabilities	<u>1,961,631</u>	<u>1,767,490</u>
Total liabilities	<u>2,340,247</u>	<u>2,220,934</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	26,988	36,321
Deferred inflows - OPEB	<u>110,906</u>	<u>58,619</u>
Total deferred inflows of resources	<u>137,894</u>	<u>94,940</u>
NET POSITION		
Net investment in capital assets	51,738,538	50,784,879
Restricted	846,020	657,278
Unrestricted	<u>(1,239,833)</u>	<u>(1,027,939)</u>
Total net position	<u>51,344,725</u>	<u>50,414,218</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 53,822,866</u>	<u>\$ 52,730,092</u>

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

KNOTT COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended December 31,

	2019	2018
OPERATING INCOME		
Water service	\$ 2,160,378	\$ 2,121,398
Sewer service	94,640	92,007
Penalties	18,043	21,478
Miscellaneous income	45,115	8,846
Reconnection and collection fees	<u>1,074</u>	<u>2,794</u>
Total operating income	<u>2,319,250</u>	<u>2,246,523</u>
OPERATING EXPENSES		
Salaries and fringe benefits	1,055,154	970,630
Commissioners	28,900	30,200
Office and advertising expense	6,300	853
Water consumption	80,724	94,251
Electricity	437,602	441,392
Telephone	15,004	13,236
Travel and training	5,789	4,764
Rents	471	3,705
Contractual fees	223,818	195,504
Vehicle expense	47,465	42,124
Operating supplies and maintenance	378,715	358,609
Licenses, permits, dues, and fees	6,858	14,916
Bad debt expense	-	62,875
Insurance and bonds	<u>57,521</u>	<u>62,638</u>
Total operating expense	<u>2,344,321</u>	<u>2,295,697</u>
Operating (loss) before depreciation	(25,071)	(49,174)
Depreciation expense	<u>1,364,456</u>	<u>1,307,466</u>
OPERATING (LOSS)	(1,389,527)	(1,356,640)
Non-operating income (expenses)		
Interest income	6,153	975
Refunds to customers	(282)	(827)
Gain on disposal of capital assets	-	7,248
Interest expense	<u>(18,147)</u>	<u>(20,315)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,401,803)	(1,369,559)
Capital contributions		
Tap fees	31,409	28,350
Contributed capital	<u>2,300,901</u>	<u>2,397,400</u>
CHANGE IN NET POSITION	930,507	1,056,191
Net position, beginning of year, as restated	<u>50,414,218</u>	<u>49,358,027</u>
NET POSITION, END OF YEAR	<u>\$ 51,344,725</u>	<u>\$ 50,414,218</u>

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

KNOTT COUNTY WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,274,709	\$ 2,190,029
Payment to suppliers	(1,207,924)	(1,200,014)
Payment for employee services and benefits	(907,950)	(875,890)
Other receipts	<u>45,115</u>	<u>8,846</u>
Net cash provided by operating activities	<u>203,950</u>	<u>122,971</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(65,092)	(251,247)
Contributed capital and tap fees	55,021	210,317
Proceeds on sale of capital assets	-	7,248
Refunds issued to customers	(282)	(827)
Principal paid on capital debt	(66,934)	(54,391)
Interest paid on capital debt	<u>(23,289)</u>	<u>(15,382)</u>
Net cash (used) by financing activities	<u>(100,576)</u>	<u>(104,282)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(305,583)	-
Interest income	<u>6,153</u>	<u>975</u>
Net cash (used) provided by investing activities	<u>(299,430)</u>	<u>975</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(196,056)	19,664
Cash and cash equivalents at beginning of year	<u>805,776</u>	<u>786,112</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 609,720</u>	<u>\$ 805,776</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (1,389,527)	\$ (1,356,640)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	1,364,456	1,307,466
Net changes in pension liability	168,832	105,590
Net changes in OPEB liability	7,050	13,020
Changes in assets and liabilities:		
(Increase) decrease in receivables	574	15,227
(Increase) decrease in prepaid expenses	4,875	11,353
Increase (decrease) in accounts payable	38,418	16,345
Increase (decrease) in payroll and other liabilities	222	4,280
Increase (decrease) in other current liabilities	<u>9,050</u>	<u>6,330</u>
Net cash provided by operating activities	<u>\$ 203,950</u>	<u>\$ 122,971</u>
Supplemental disclosure of cash flow information:		
Non-cash capital and related financing information:		
Capital asset additions accrued as other current liabilities	<u>\$ 41,329</u>	<u>\$ 156,142</u>
Fair value of contributed capital assets	<u>\$ 2,300,901</u>	<u>\$ 2,122,520</u>

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

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

1. ORGANIZATION AND ACCOUNTING POLICIES

Nature of Activities

Knott County Water and Sewer District (the District) was created by the Knott County Fiscal Court on February 10, 1999 to be governed and operated under rules and procedures established under Kentucky Revised Statutes (KRS) Chapter 74, relating to water districts and KRS Chapter 220 relating to sanitation districts. The entity is expanding its operating activities into parts of Knott County not presently served with water and sewer utility services.

Basis of Presentation

The Governmental Accounting Standards Board (GASB) Codification creates a framework for basic financial statements that report the government's financial activities. Financial statements include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Knott County Water and Sewer District is considered a special purpose government engaged in a business-type activity. Therefore, no governmental type funds are recognized and instead, proprietary fund financial statement are presented.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. For its water and sewer enterprise operations, the District uses the full-accrual basis of accounting where revenues are recorded when earned and expenses are recognized when incurred.

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

Capital Assets and Depreciation

Capital assets are stated at historical cost. Donated assets are valued at their fair market value on the date of donation. Capital assets costing over \$1,500 are recorded and depreciated using the straight-line method of accounting over the respective assets useful lives as follows:

Equipment	5-20	years
Transmission lines	30-63	years
Water wells, structures and improvements	15-63	years

Allowance for Doubtful Accounts

Knott County Water and Sewer District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimates of probable losses. The allowance for doubtful accounts was estimated at \$14,000 as of December 31, 2019 and 2018.

KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Net Position

The District's financial statements incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets", consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Restricted Net Position

Restricted net position reflects funds held in various reserve accounts to meet the covenants as may be specified and defined in the bond and note indentures, or as restrictions imposed by grantors.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for utility services provided. Non-operating includes interest income/expense, gain/loss on disposal of assets and refunds to customers.

Materials and Supplies

Purchases of materials and supplies are expensed when purchased and are not inventoried and reflected in the statement of net position. Generally, supplies are purchased as needed. This departure from generally accepted accounting principles (GAAP) is not considered material to the financial statements.

Pensions

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.

Postemployment Benefits Other Than Pensions (OPEB)

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.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Estimates

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

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through March 25, 2020; which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2019, have not been evaluated by the District.

2. CASH 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.

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.

The District's deposits at December 31, 2019 and 2018, 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 \$1,011,933 and \$875,807 at December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, \$511,933 and \$625,807, respectively, of the District's deposits were covered by collateral held by the custodial banks in the District's name. As of December 31, 2019 and 2018, \$500,000 and \$250,000, respectively, of the District's deposits were covered by Federal Depository Insurance.

Statement of Cash Flows

The statement of cash flows includes as cash and cash equivalents the following as of December 31,:

	2019	2018
Cash and cash equivalents	\$ 69,283	\$ 148,498
Restricted cash and cash equivalents	<u>540,437</u>	<u>657,278</u>
	<u>\$ 609,720</u>	<u>\$ 805,776</u>

Certificate of deposit – As of December 31, 2019, the District held a certificate of deposit with a book value of \$305,583. The certificate of deposit has an interest rate of 2.75% and matures on May 2, 2024.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the District at December 31, 2019:

	Balance 12/31/18	Additions	Deductions	Balance 12/31/19
Capital Assets – Water				
Not depreciated				
Land and land rights	\$ 117,294	\$ -	\$ -	\$ 117,294
Construction-in-progress	332,260	2,163,038	(1,888,642)	606,656
Depreciated				
Water plant and transmission lines	54,140,356	1,906,505	-	56,046,861
Vehicles	412,849	30,682	-	443,531
Operating equipment	207,816	39,598	-	247,414
Office furniture and equipment	<u>177,713</u>	<u>-</u>	<u>-</u>	<u>177,713</u>
Subtotal	<u>55,388,288</u>	<u>4,139,823</u>	<u>(1,888,642)</u>	<u>57,639,469</u>
Accumulated depreciation – Water				
Water plant and transmission lines	10,013,864	1,137,095	-	11,150,959
Vehicles	289,726	23,708	-	313,434
Operating equipment	146,746	9,929	-	156,675
Office furniture and equipment	<u>103,164</u>	<u>8,451</u>	<u>-</u>	<u>111,615</u>
Subtotal	<u>10,553,500</u>	<u>1,179,183</u>	<u>-</u>	<u>11,732,683</u>
Total - Water	<u>44,834,788</u>	<u>2,960,640</u>	<u>(1,888,642)</u>	<u>45,906,786</u>
Capital Assets – Sewer				
Not depreciated				
Land and land rights	33,291	-	-	33,291
Depreciated				
WWTPs and collection systems	7,045,453	-	-	7,045,453
Operating equipment	<u>68,811</u>	<u>-</u>	<u>-</u>	<u>68,811</u>
Subtotal	<u>7,147,555</u>	<u>-</u>	<u>-</u>	<u>7,147,555</u>
Accumulated depreciation – Sewer				
Vehicles	703,052	181,463	-	884,515
Operating equipment	<u>45,357</u>	<u>3,810</u>	<u>-</u>	<u>49,167</u>
Subtotal	<u>748,409</u>	<u>185,273</u>	<u>-</u>	<u>933,682</u>
Total - Sewer	<u>6,399,146</u>	<u>185,273</u>	<u>-</u>	<u>6,213,873</u>
Total capital assets, net	<u>\$ 51,233,934</u>	<u>\$ 2,775,367</u>	<u>\$(1,888,642)</u>	<u>\$ 52,120,659</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

3. CAPITAL ASSETS (CONTINUED)

The following is a summary of changes in capital assets for the District at December 31, 2018:

	Balance 12/31/17	Additions	Deductions	Balance 12/31/18
Capital Assets – Water				
Not depreciated				
Land and land rights	\$ 117,294	\$ -	\$ -	\$ 117,294
Construction-in-progress	45,569	286,691	-	332,260
Depreciated				
Water plant and transmission lines	54,140,356	-	-	54,140,356
Vehicles	340,820	74,029	(2,000)	412,849
Operating equipment	182,310	25,506	-	207,816
Office furniture and equipment	177,713	-	-	177,713
Subtotal	<u>55,004,062</u>	<u>386,226</u>	<u>(2,000)</u>	<u>55,388,288</u>
Accumulated depreciation – Water				
Water plant and transmission lines	8,886,845	1,127,019	-	10,013,864
Vehicles	265,679	26,047	(2,000)	289,726
Operating equipment	137,790	8,956	-	146,746
Office furniture and equipment	93,720	9,444	-	103,164
Subtotal	<u>9,384,034</u>	<u>1,171,466</u>	<u>(2,000)</u>	<u>10,553,500</u>
Total - Water	<u>45,620,028</u>	<u>(785,240)</u>	<u>-</u>	<u>44,834,788</u>
Capital Assets – Sewer				
Not depreciated				
Land and land rights	33,291	-	-	33,291
Depreciated				
WWTPs and collection systems	4,948,439	2,122,520	(25,506)	7,045,453
Operating equipment	68,811	-	-	68,811
Subtotal	<u>5,050,541</u>	<u>2,122,520</u>	<u>(25,506)</u>	<u>7,147,555</u>
Accumulated depreciation – Sewer				
Vehicles	571,427	131,625	-	703,052
Operating equipment	40,982	4,375	-	45,357
Subtotal	<u>612,409</u>	<u>136,000</u>	<u>-</u>	<u>748,409</u>
Total - Sewer	<u>4,438,132</u>	<u>1,986,520</u>	<u>(25,506)</u>	<u>6,399,146</u>
Total capital assets, net	<u>\$ 50,058,160</u>	<u>\$ 1,201,280</u>	<u>\$ (25,506)</u>	<u>\$ 51,233,934</u>

During 2018, the District assumed ownership of the Ball Creek Sewer Extension Highway 80 project in a non-monetary transaction with the Troublesome Creek Environmental Authority. The District recorded contributed capital at the estimated fair value of the plant of approximately \$2,100,000.

Total depreciation expense is allocated as follows for the years ended December 31,:

	2019	2018
Water operations	\$ 1,179,183	\$ 1,171,466
Sewer operations	<u>185,273</u>	<u>136,000</u>
	<u>\$ 1,364,456</u>	<u>\$ 1,307,466</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

4. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at December 31,:

	2019	2018
Construction contractors payable	\$ -	\$ 97,974
Customer deposit payable	136,109	128,070
Engineering contract payable	41,329	58,168
Utility tax payable	6,761	5,309
Sales tax payable	<u>725</u>	<u>1,166</u>
Total other current liabilities	<u>\$ 184,924</u>	<u>\$ 290,687</u>

5. LONG-TERM DEBT

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, :

Bonds and Notes	2019	2018
Rural Utilities Service Bond - \$185,000, dated 12/19/03, was issued to pay off prior debt of the District, with payments through 2043, bearing interest at a rate of 4.5%.	\$ 145,000	\$ 152,000
Kentucky Infrastructure Authority Loan - \$547,000, dated 1/1/04, was issued to pay for expenditures related to the Highway 899/Mallie Waterworks improvement project, with payments through 2022, bearing interest at a rate of 4.05%.	152,021	208,655
Rural Utilities Service Bond - \$100,000, dated 1/26/07, was issued to finance a portion of the Water Treatment Plant project, with payments through 2046, bearing interest at a rate of 4.125%.	<u>85,100</u>	<u>88,400</u>
Total	382,121	449,055
Less: current portion of debt	<u>(64,071)</u>	<u>(66,634)</u>
Long-term debt	<u>\$ 318,050</u>	<u>\$ 382,421</u>

The annual requirements to amortize all bonds and notes outstanding as of December 31, 2019 are as follows:

Year Ending December 31,	Principal	Interest and Fees	Payment
2020	\$ 64,071	\$ 15,932	\$ 80,003
2021	66,604	13,149	79,753
2022	37,446	10,542	47,988
2023	5,800	9,887	15,687
2024	5,900	9,626	15,526
2025-2029	35,500	43,766	79,266
2030-2034	44,200	35,008	79,208
2035-2039	54,600	24,158	78,758
2040-2044	54,700	10,704	65,404
2045-2047	<u>13,300</u>	<u>1,432</u>	<u>14,732</u>
	<u>\$ 382,121</u>	<u>\$ 174,204</u>	<u>\$ 556,325</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

5. LONG-TERM DEBT (CONTINUED)

The following is a summary of changes in long-term debt, net pension liability, and net OPEB liability for the year ended December 31, 2019:

	December 31, 2018	Additions	Retirements	December 31, 2019	Due Within One Year
Net pension liability	\$ 1,072,442	\$ 253,990	\$ -	\$ 1,326,432	\$ -
Net OPEB liability	312,627	4,522	-	317,149	-
Bonds payable	240,400	-	(10,300)	230,100	5,100
Notes payable	<u>208,655</u>	<u>-</u>	<u>(56,634)</u>	<u>152,021</u>	<u>58,971</u>
	<u>\$ 1,834,124</u>	<u>\$ 258,512</u>	<u>\$ (66,934)</u>	<u>\$ 2,025,702</u>	<u>\$ 64,071</u>

The following is a summary of changes in long-term debt, net pension liability, and OPEB liability for the year ended December 31, 2018:

	December 31, 2017	Additions	Retirements	December 31, 2018	Due Within One Year
Net pension liability	\$ 1,010,749	\$ 61,693	\$ -	\$ 1,072,442	\$ -
Net OPEB liability	347,146	-	(34,519)	312,627	-
Bonds payable	240,400	-	-	240,400	10,000
Notes payable	<u>263,046</u>	<u>-</u>	<u>(54,391)</u>	<u>208,655</u>	<u>56,634</u>
	<u>\$ 1,861,341</u>	<u>\$ 61,693</u>	<u>\$ (88,910)</u>	<u>\$ 1,834,124</u>	<u>\$ 66,634</u>

The District is required to maintain debt service and depreciation reserves in accordance with their various debt agreements. The balance in the debt service reserve as of December 31, 2019 and 2018 was \$232,835 and \$203,981, respectively. The balance in the depreciation reserve as of December 31, 2019 and 2018 was \$39,950. The District has fully funded its debt service and depreciation reserves at December 31, 2019 and 2018.

6. LEASE COMMITMENTS

The District leased office equipment under a non-cancellable operating lease agreement that ended during 2018. Rental expense for the year ended December 31, 2018 was \$3,705.

7. RETIREMENT PLAN

The Knott County Water and Sewer 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 years ended December 31, 2019 and 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

7. RETIREMENT PLAN (CONTINUED)

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 30 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 8. For the year ended December 31, 2019, plan members contributed 16.22% to the pension trust through June 30th and 19.30%, thereafter for non-hazardous job classifications. 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, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$92,829 for the year ended December 31, 2019, or 100% of the required contribution. The District contributed \$77,086 for the year ended December 31, 2018, or 100% of the required contribution.

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

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

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

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

7. RETIREMENT PLAN (CONTINUED)

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 net pension liability of \$1,326,432, or its proportionate share of the total 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'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, 2019, the District's proportion was .01886 percent, which was an increase of .00125 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized pension expense of \$254,844. For the year ended December 31, 2018, the District recognized pension expense of \$174,583. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 33,868	\$ 5,605
Changes of assumptions	134,250	-
Net difference between projected and actual earnings on Plan investments	-	21,383
Changes in proportion and differences between District contributions and proportionate share of contributions	60,737	-
District contributions subsequent to the measurement date	46,767	-
Total	\$ 275,622	\$ 26,988

The \$46,767 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 as of December 31, 2019 will be recognized in pension expense as follows:

Year ending December 31,

2020	\$ 121,993
2021	\$ 56,547
2022	\$ 21,811
2023	\$ 1,516

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

7. RETIREMENT PLAN (CONTINUED)

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. As of December 31, 2019, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
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%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	6.25%

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.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

7. RETIREMENT PLAN (CONTINUED)

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

	Discount rate		District's proportionate share of net pension liability
1% decrease	5.25%	\$	1,658,990
Current discount rate	6.25%	\$	1,326,432
1% increase	7.25%	\$	1,049,248

Payable to the Pension Plan – At December 31, 2019 and 2018, the District reported a payable of \$11,764 and \$10,706, respectively, for the outstanding amount of contributions payable to the pension plan. The payable includes both the pension and insurance contribution allocation.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, 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 7, 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 \$26,182, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2018, the District contributed \$25,543, or 100% of the required contribution for non-hazardous job classifications.

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

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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 \$317,149. 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. At December 31, 2018, the District reported a liability for its proportionate share of the net OPEB liability of \$312,627. 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 June 30, 2017 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 .01886 percent, which was an increase of .00125 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized OPEB expense of \$38,591. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 95,691
Changes of assumptions	93,847	628
Net difference between projected and actual earnings on Plan investments	-	14,086
Changes in proportion and differences between District contributions and proportionate share of contributions	20,207	501
District contributions subsequent to the measurement date	<u>18,344</u>	<u>-</u>
Total	<u>\$ 132,398</u>	<u>\$ 110,906</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The \$18,344 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 \$6,810 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	\$	1,446
2021	\$	1,446
2022	\$	5,925
2023	\$	(2,663)
2024	\$	(2,793)
2025	\$	(213)

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.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

8. 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
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%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	6.25%

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2019, 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”. 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:

	Discount rate	Proportionate share of net OPEB liability
1% decrease	4.68%	\$ 424,850
Current discount rate	5.68%	\$ 317,149
1% increase	6.68%	\$ 228,412

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

8. 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:

	Proportionate share of net OPEB liability
1% decrease	\$ 235,866
Current trend rate	\$ 317,149
1% increase	\$ 415,716

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

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; 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.

10. CONSTRUCTION COMMITMENTS

The District regularly engages in construction projects to expand water lines and access throughout its service area. The District generally applies for grant money to fund these projects. As of December 31, 2019 and 2018, the District had construction in progress of \$606,656 and \$332,260, respectively, related to various small projects.

11. PRIOR YEAR RESTATEMENT OF NET POSITION

During 2018, the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

Net position, as previously reported	\$ 49,633,613
Beginning net OPEB liability	<u>(275,586)</u>
Net position, as restated	<u>\$ 49,358,027</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

12. SUBSEQUENT EVENT

PSC Order – Water Rate Case 2019-00268

On July 31, 2019, the District filed an application with the Public Service Commission (PSC), requesting to adjust its rate for water service. In the application, the District requested rates that would increase annual water sales revenues by \$1,002,832, a 47.56% increase. Following an intensive analysis, the PSC ordered on January 31, 2020, the District to increase rates with a two-year phase in process. The retail water service rates in year one are calculated in order to recover approximately 66.6 percent of the retail revenue increase and the rates in year two are calculated in order to recover the full amount of the retail revenue increase for the District. In conclusion, the PSC determined that a revenue increase of \$646,151 from water service rates was necessary to generate the overall revenue requirement for the District.

REQUIRED SUPPLEMENTARY INFORMATION

**KNOTT COUNTY WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Four Calendar Years**

	2019	2018	2017	2016
District's proportion of the net pension liability	0.01886%	0.01761%	0.01727%	0.01672%
District's proportionate share of the net pension liability (asset)	\$ 1,326,432	\$ 1,072,442	\$ 1,010,749	\$ 823,295
District's covered employee payroll	\$ 514,991	\$ 476,238	\$ 460,392	\$ 442,662
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	257.56%	225.19%	219.54%	185.99%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.32%	55.50%

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.

**KNOTT COUNTY WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF CONTRIBUTIONS - PENSION
Last Four Calendar Years**

	2019	2018	2017	2016
Contractually required employer contribution	\$ 92,829	\$ 77,086	\$ 63,249	\$ 60,741
Contributions relative to contractually required employer contribution	<u>92,829</u>	<u>77,086</u>	<u>63,249</u>	<u>60,741</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 530,184	\$ 504,764	\$ 447,451	\$ 435,595
Employer contributions as a percentage of covered-employee payroll	17.51%	15.27%	14.14%	13.94%

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.

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

**KNOTT COUNTY WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Four Calendar Years**

	2019	2018	2017	2016
District's proportion of the net OPEB liability	0.01886%	0.01761%	0.01727%	0.01727%
District's proportionate share of the net OPEB liability (asset)	\$ 317,149	\$ 312,627	\$ 347,146	\$ 272,291
District's covered employee payroll	\$ 514,991	\$ 476,238	\$ 460,392	\$ 442,662
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	61.58%	65.65%	75.40%	61.51%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.39%	unavailable

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.

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

**KNOTT COUNTY WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF CONTRIBUTIONS - OPEB
Last Four Calendar Years**

	2019	2018	2017	2016
Contractually required employer contribution	\$ 26,182	\$ 25,543	\$ 20,757	\$ 21,446
Contributions relative to contractually required employer contribution	<u>26,182</u>	<u>25,543</u>	<u>20,757</u>	<u>21,446</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 530,184	\$ 504,764	\$ 447,451	\$ 435,595
Employer contributions as a percentage of covered-employee payroll	4.94%	5.06%	4.64%	4.92%

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.

SUPPLEMENTARY INFORMATION

**KNOTT COUNTY WATER AND SEWER DISTRICT
BUDGETARY COMPARISON SCHEDULE
for the year ended December 31, 2019**

	Original Budget	Appropriated Budget	Actual Amount	Variance with Final Budget Favorable (Unfavorable)
OPERATING INCOME				
Water service	\$ 2,181,000	\$ 2,181,000	\$ 2,160,378	\$ (20,622)
Sewer service	-	-	94,640	94,640
Penalties	-	-	18,043	18,043
Miscellaneous income	210,000	210,000	45,115	(164,885)
Reconnection and collection fees	-	-	1,074	1,074
	<u>2,391,000</u>	<u>2,391,000</u>	<u>2,319,250</u>	<u>(71,750)</u>
Total operating income				
OPERATING EXPENSES				
Salaries and fringe benefits	842,682	842,682	1,055,154	(212,472)
Commissioners	30,200	30,200	28,900	1,300
Office and advertising expense	1,000	1,000	6,300	(5,300)
Water consumption	95,000	95,000	80,724	14,276
Electricity	475,000	475,000	437,602	37,398
Telephone	13,000	13,000	15,004	(2,004)
Travel and training	4,500	4,500	5,789	(1,289)
Rents	-	-	471	(471)
Contractual fees	189,000	189,000	223,818	(34,818)
Vehicle expense	45,000	45,000	47,465	(2,465)
Operating supplies and maintenance	515,820	515,820	378,715	137,105
Licenses, permits, dues, and fees	7,250	7,250	6,858	392
Insurance and bonds	63,000	63,000	57,521	5,479
	<u>2,281,452</u>	<u>2,281,452</u>	<u>2,344,321</u>	<u>(62,869)</u>
Total operating expense				
Operating income (loss) before depreciation	109,548	109,548	(25,071)	(134,619)
Depreciation expense	<u>1,310,520</u>	<u>1,310,520</u>	<u>1,364,456</u>	<u>(53,936)</u>
OPERATING (LOSS)	(1,200,972)	(1,200,972)	(1,389,527)	(188,555)
Non-operating income (expenses)				
Interest income	-	-	6,153	6,153
Refunds to customers	-	-	(282)	(282)
Interest expense	<u>(18,037)</u>	<u>(18,037)</u>	<u>(18,147)</u>	<u>(110)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,219,009)	(1,219,009)	(1,401,803)	(182,794)
Capital contributions				
Tap fees	-	-	31,409	31,409
Contributed capital	<u>-</u>	<u>-</u>	<u>2,300,901</u>	<u>2,300,901</u>
CHANGE IN NET POSITION	<u>\$ (1,219,009)</u>	<u>\$ (1,219,009)</u>	<u>\$ 930,507</u>	<u>\$ 2,149,516</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT
BUDGETARY COMPARISON SCHEDULE
for the year ended December 31, 2018**

	Original Budget	Appropriated Budget	Actual Amount	Variance with Final Budget Favorable (Unfavorable)
OPERATING INCOME				
Water service	\$ 2,004,000	\$ 2,004,000	\$ 2,121,398	\$ 117,398
Sewer service	-	-	92,007	92,007
Penalties	-	-	21,478	21,478
Miscellaneous income	40,000	40,000	8,846	(31,154)
Reconnection and collection fees	-	-	2,794	2,794
	<u>2,044,000</u>	<u>2,044,000</u>	<u>2,246,523</u>	<u>202,523</u>
OPERATING EXPENSES				
Salaries and fringe benefits	856,393	856,393	970,630	(114,237)
Commissioners	30,200	30,200	30,200	-
Office and advertising expense	1,000	1,000	853	147
Water consumption	93,400	93,400	94,251	(851)
Electricity	417,026	417,026	441,392	(24,366)
Telephone	11,000	11,000	13,236	(2,236)
Travel and training	3,500	3,500	4,764	(1,264)
Rents	1,500	1,500	3,705	(2,205)
Contractual fees	172,500	172,500	195,504	(23,004)
Vehicle expense	31,000	31,000	42,124	(11,124)
Operating supplies and maintenance	290,798	290,798	358,609	(67,811)
Licenses, permits, dues, and fees	-	-	14,916	(14,916)
Bad debt expense	7,020	7,020	62,875	(55,855)
Insurance and bonds	55,000	55,000	62,638	(7,638)
	<u>1,970,337</u>	<u>1,970,337</u>	<u>2,295,697</u>	<u>(325,360)</u>
Total operating expense				
Operating income before depreciation	73,663	73,663	(49,174)	(122,837)
Depreciation expense	<u>1,258,024</u>	<u>1,258,024</u>	<u>1,307,466</u>	<u>(49,442)</u>
OPERATING (LOSS)	(1,184,361)	(1,184,361)	(1,356,640)	(172,279)
Non-operating income (expenses)				
Interest income	-	-	975	975
Refunds to customers	-	-	(827)	(827)
Gain on disposal of capital asset	-	-	7,248	7,248
Interest expense	<u>(20,713)</u>	<u>(20,713)</u>	<u>(20,315)</u>	<u>398</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,205,074)	(1,205,074)	(1,369,559)	(164,485)
Capital contributions				
Tap fees	-	-	28,350	28,350
Contributed capital	-	-	<u>2,397,400</u>	<u>2,397,400</u>
CHANGE IN NET POSITION	<u>\$ (1,205,074)</u>	<u>\$ (1,205,074)</u>	<u>\$ 1,056,191</u>	<u>\$ 2,261,265</u>



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**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**

The Board of Commissioners
Knott County Water and Sewer District
Vicco, 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 Knott County Water and Sewer 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 Knott County Water and Sewer District's basic financial statements and have issued our report thereon dated March 25, 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 were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Knott County Water and Sewer 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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2019-002.

Knott County Water and Sewer District's Response to Findings

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

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
March 25, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Commissioners
Knott County Water and Sewer District
Vicco, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Knott County Water and Sewer District's (the District's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
March 25, 2020

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended December 31, 2019**

Federal Grant/Pass Through Grantor/Program Title	Federal CFDA Number	Grantor Number	Grant Award Period	Expenditures
<u>U.S. Department of the Interior:</u>				
Passed through from Commonwealth of Kentucky, Division of Abandoned Mine Lands				
Abandoned Mine Land Reclamation	15.252	PO2 128 1800001288	09/15/17-06/30/19	\$ 1,024,940
	15.252	PO2 128 1900000757	10/01/18-06/30/21	675,664
	15.252	PO2 128 2000000467	10/01/19-01/31/21	<u>39,194</u>
		Total Department of the Interior		<u>1,739,798</u>
TOTAL FEDERAL AWARDS (INCLUDED IN CONTRIBUTED CAPITAL)				<u>\$ 1,739,798</u>

The Organization did not pass through any funds to subrecipients.

Note 1 - Basis of Presentation

This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2 - Indirect Cost Rates

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended December 31, 2019**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified X Yes No
 Significant deficiencies identified that are not
 considered to be material weaknesses Yes X None reported

Noncompliance material to financial statements noted X Yes No

Federal Awards:

Internal control over major programs:

Material weaknesses identified Yes X No
 Significant deficiencies identified that are not
 considered to be material weaknesses Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in
 accordance with 2 CFR 200.516(a)? Yes X No

Major Programs:

CFDA Number	Name of Federal Program or Cluster
15.252	Abandoned Mine Lands (AML) Program

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

Auditee qualified as a low-risk auditee? Yes X No

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended December 31, 2019**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

2019-001 – Internal Control over Financial Reporting

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.

Cause:

The District lacks personnel with the expertise to prepare its financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

Effect:

The auditor to prepared 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 – Board Member Health Insurance

Criteria:

KRS 74.020(3) states that a Commissioner who participates in an official action by the water district board of commissioners which results in a direct financial benefit to him may be removed from office as provided by KRS 65.007 or 74.025.

Condition:

The Knott County Board of Commissioners received health insurance benefits that had been approved by current members of the Board of Commissioners.

Cause:

The Board of Commissioners relied on Public Service Commission (PSC) Staff Opinion 2013-012, which indicated that entities may provide health care coverage to their officers and employees, including their elected officers. However, the opinion did also reference KRS 74.020(3) and warned of the possibility of removal from office.

Effect:

Members of the Knott County Board of Commissioners participated in an official action which resulted in a direct financial benefit to themselves. During the year ended December 31, 2019, the District paid approximately \$42,000 in health insurance premiums on behalf of the Board of Commissioners. As a result, the PSC determined that four members of the Board of Commissioners violated KRS 74.020(3) and may be removed from their positions on the board. The Commission disallowed any recovery of expenses associated with providing insurance to the board.

**KNOTT COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended December 31, 2019**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)

2019-002 – Board Member Health Insurance (continued)

Recommendation:

We recommend that the District take steps to address the noncompliance with KRS 74.020(3) and to comply with the PSC's order regarding the cessation of providing health insurance benefits to board commissioners.

RESPONSE:

Due to the PSC Order 2019-00268, all board members who were receiving benefits have since resigned or were replaced. All current board members are only receiving the monetary compensation allowed as stated in KRS 74.020(6).

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

Finding 2018 -001 – Internal Control over Financial Reporting

Status: Repeated as Finding 2019-001