

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS  
With Independent Auditor's Report**

**YEAR ENDED DECEMBER 31, 2019**

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Crittenden-Livingston County Water District  
Salem, KY

We have audited the accompanying financial statements of the business-type activities of the Crittenden-Livingston County Water 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.

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Crittenden-Livingston County Water District, as of December 31, 2019, and the respective 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 Management's Discussion and Analysis on pages 3-8 and the pension and medical plan schedules on pages 35-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crittenden-Livingston County Water District's basic financial statements. The supplemental statement of revenues, expenses and changes in net position – budget to actual on page 39 and detail schedule of operating expenses on page 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental statement of revenues, expenses and changes in net position – budget to actual and detail schedule of operating expenses 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 statement and detailed schedule of operating expenses 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 July 27, 2020 on our consideration of Crittenden-Livingston County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Crittenden-Livingston County Water 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 Crittenden-Livingston County Water District's internal control over financial reporting and compliance.

*Kemper CPA Group, LLP*

Certified Public Accountants and Consultants  
Paducah, Kentucky  
July 27, 2020

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019**

The Crittenden-Livingston County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2019. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

**FINANCIAL HIGHLIGHTS**

- Total assets and deferred outflows of resources of the District exceed its total liabilities and deferred inflows of resources at December 31, 2019 by \$6,537,714 (Net Position). Of this amount \$666,730 is restricted, and \$7,114,069 is invested in capital assets net of the related debt, leaving an unrestricted net position deficit of \$1,243,085.
- The District's net position decreased by \$237,686 resulting in a December 31, 2019 balance of \$6,537,714. This balance represents a decrease of 3.5% in the change of net position over the adjusted December 31, 2018 balance of \$6,775,400.
- The District's 2019 operating revenues of \$2,346,788 decreased 2.5% from the 2018 amount, and operating expenses for 2019 of \$2,247,661 decreased 0.3%. Non-operating income for 2019, consisted of interest income of \$6,158, insurance proceeds of \$2,390 and capital contributions consisting of tap on fees and the fair market value of new land acquired of \$37,108.
- The District's unrestricted cash available for operating expenses was \$2,344 at December 31, 2019.
- The District's investment in capital assets was \$18,076,216 net of depreciation at December 31, 2019.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Crittenden Livingston Water District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Auditing Standards Board (GASB).

**Statement of net position.** The statement of net position presents the financial position of the District. It presents information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is displayed in three components: net investment in capital assets, restricted (distinguished between major categories of restrictions) and unrestricted. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 8.

**Statement of revenues, expenses and changes in net position.** The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 9 of this report.

**Statement of cash flows.** The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 10.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 14-34 of this report.

**Required Supplementary Information.** In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 35-38.

## **OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,537,714 at December 31, 2019.

For the current year, the District reported a net loss of \$237,686.

During 2019, the District's net capital assets decreased \$628,884, and total debt liabilities decreased by \$673,311. Unrestricted net position decreased \$255,408, from a deficit of \$987,677 at December 31, 2018, to a deficit of \$1,243,085 at December 31, 2019.

The District noted operating revenue of \$2,346,788, a \$60,765 decrease from the 2018 revenue of \$2,407,553. Operating expenses increased \$2,302 from the 2018 amount of \$2,247,661. Interest expense increased \$2,313 from 2018. The total interest expense recognized in 2019 was \$382,469.

Overall, the District's financial position decreased during 2019.

The District's overall financial position and operations for the past two years are summarized as follows:

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT'S  
NET POSITION**

<b>Assets</b>	2019	2018
Current and other assets	\$ 431,165	\$ 503,380
Restricted assets	666,730	693,437
Capital assets	<u>18,076,216</u>	<u>18,705,098</u>
Total Assets	<u>19,174,111</u>	<u>19,901,915</u>
<b>Deferred Outflows of Resources</b>	<u>357,354</u>	<u>303,027</u>
<b>Liabilities</b>		
Current liabilities	212,022	195,321
Current portion of long-term debt	662,952	651,062
Long-term liabilities	<u>11,973,912</u>	<u>12,483,064</u>
Total Liabilities	<u>12,848,886</u>	<u>13,329,447</u>
<b>Deferred Inflows of Resources</b>	<u>144,865</u>	<u>100,095</u>
<b>Net Position</b>		
Net investment in capital assets	7,114,069	7,069,640
Restricted	666,730	693,437
Unrestricted	<u>(1,243,085)</u>	<u>(987,677)</u>
Total Net Position	<u>\$ 6,537,714</u>	<u>\$ 6,775,400</u>

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

An additional portion of the District's net position represents resources that are subject to restrictions on how they may be used. The remaining balance of net position is a negative unrestricted balance of \$1,243,085.

**Analysis of the District's Operations** – Overall the District had a decrease in net position of \$237,686.

The following table provides a summary of the District's operations for the year ended December 31, 2019 and 2018.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
CHANGES IN NET POSITION**

	2019	2018
<b>Revenues</b>		
Operating revenues	\$ 2,346,788	\$ 2,407,553
Investment income	6,158	4,167
Grant revenues	2,390	-
Capital contributions	37,108	49,035
Total revenues	<u>2,392,444</u>	<u>2,460,755</u>
<b>Expenses</b>		
Depreciation and amortization	677,879	686,549
Transmission and distribution expenses	678,925	677,669
Administrative and general expenses	659,115	643,394
Interest on debt and other	382,469	380,156
Water treatment	162,272	151,760
Payroll and other taxes	44,496	42,655
Bad debts	6,694	25,540
Customer accounts expenses	18,280	17,792
Total Expenses	<u>2,635,885</u>	<u>2,625,515</u>
<b>Change in net position</b>	(237,686)	(164,760)
<b>Net position - January 1</b>	<u>6,775,400</u>	<u>6,940,160</u>
<b>Net position - December 31</b>	<u>\$ 6,537,714</u>	<u>\$ 6,775,400</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS**

Overall, the District's financial position is consistent with the previous year.

**BUDGETARY HIGHLIGHTS**

The original budget passed by the board anticipated operating revenues of \$2,485,000 and operating expenses of \$2,098,300. The amended budget passed by the board anticipated operating revenues of \$2,440,000 and operating expenses of \$2,069,300. Final budgeted operating revenues exceeded actual revenues by \$93,212, and actual operating expenses exceeded final budgeted expenses by \$178,361 for a negative variance in operating income of \$271,573.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital assets

The District's investment in capital assets for business-type activities as of December 31, 2019, amounts to \$18,076,216 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plant and facilities, machinery and equipment, and infrastructure.

	2019	2018
<b>Business-type activities</b>		
Capital assets, not being depreciated:		
Land	\$ 108,469	\$ 101,969
Total capital assets, not being depreciated	<u>108,469</u>	<u>101,969</u>
Capital assets, being depreciated:		
Transmission and distribution	14,384,125	14,894,875
Buildings	39,074	42,687
Furniture and fixtures	3,573	4,246
Machinery and equipment	<u>3,540,975</u>	<u>3,661,323</u>
Total capital assets, being depreciated	<u>17,967,747</u>	<u>18,603,131</u>
Business-type activities capital assets, net	<u>\$ 18,076,216</u>	<u>\$ 18,705,100</u>

During the year ended December 31, 2019, the District acquired assets totaling \$42,495. This included a new truck and meter installs. The District also acquired a piece of property on the river for \$1 from the Salem Boat Club. The fair market value of this property was \$6,500.

Additional information on the District's capital assets can be found in Note 5 of this report.

### Long-term and other debt

At the end of the current year, the Crittenden-Livingston County Water District had total debt of \$10,958,240. Long-term debt at December 31, 2018, was as follows:

	2019	2018
2008 Issue	\$ 805,000	\$ 925,000
2013 Flexible Term Financing	2,520,000	2,705,000
2013 Flexible Term Financing	1,815,000	1,870,000
2013 Reoffering Premium	143,536	169,242
2001 KIA Note Payable	333,419	413,106
2011 KIA Note Payable	215,258	229,019
2016 KIA Note Payable	876,306	918,763
KACO - 2017C	2,225,000	2,306,250
KACO - 2018B	1,950,000	2,020,000
KACO Premiums	<u>68,471</u>	<u>75,172</u>
Total	<u>\$ 10,951,990</u>	<u>\$ 11,631,552</u>

The District has an outstanding line of credit balance with Farmers Bank of \$10,157 on December 31, 2019.

Interest expense of \$398,234 was incurred during the year ended December 31, 2019.

Additional information on the District's long-term debt can be found in Note 6 of this report.

## **REQUEST FOR INFORMATION**

This financial report is designated to provide a general overview of the Crittenden-Livingston County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Ronnie Slayden, Superintendent, Crittenden-Livingston County Water District, 620 East Main Street, Salem, KY 42078.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2019**

<b>ASSETS</b>	<u><b>2019</b></u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 2,344
Accounts receivable, less allowance for doubtful accounts of \$13,254	210,619
Unbilled revenue	82,037
Other accounts receivable	275
Prepaid expenses	22,291
Inventory, at cost	<u>113,599</u>
Total current assets	<u>431,165</u>
<b>RESTRICTED ASSETS</b>	
Checking and Cash Management Accounts	
Employee benefits and customer deposits	21,738
Depreciation, construction and sinking funds held by District	146,769
Sinking funds held in trust	<u>498,223</u>
Total restricted assets	<u>666,730</u>
<b>NON-CURRENT ASSETS</b>	
Capital Assets	
Capital assets, not being depreciated	108,469
Capital assets, being depreciated, net	<u>17,967,747</u>
Total non-current assets	<u>18,076,216</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges - pensions	239,587
Deferred charges - other post-employment benefits	<u>117,767</u>
Total deferred outflows of resources	<u>357,354</u>
<b>Total Assets</b>	<u><b>19,531,465</b></u>

The notes to financial statements are an integral part of this statement.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**December 31, 2019**

**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES**

Accounts payable	\$ 47,216
Accrued and withheld payroll taxes	32,498
Accrued interest payable	108,411
Customer deposits	13,740
Line of credit	10,157
Debt payable – current	<u>662,952</u>
Total current liabilities	<u>874,974</u>

**NON-CURRENT LIABILITIES**

Debt payable, non-current	10,289,038
Pension obligations	1,359,769
Other post-employment benefit obligations	<u>325,105</u>
Total long-term debt	11,973,912
Total non-current liabilities	<u>11,973,912</u>
<b>Total Liabilities</b>	<u>12,848,886</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows - pensions	29,188
Deferred inflows - other post-employment benefits	<u>115,677</u>
Total deferred inflows of resources	<u>144,865</u>

**NET POSITION**

Invested in capital assets, net of related debt	7,114,069
Restricted for debt service and construction	666,730
Unrestricted (Deficit)	<u>(1,243,085)</u>
<b>Total Net Position</b>	<u>\$ 6,537,714</u>

The notes to financial statements are an integral part of this statement.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the Year Ended December 31, 2019**

**OPERATING REVENUE**

Sales of water, net of refunds	\$ 2,280,315
Other	66,473
Total operating revenues	<u>2,346,788</u>

**OPERATING EXPENSES**

Depreciation expense	677,879
Transmission and distribution expenses	678,925
Administrative and general expenses	659,115
Water treatment expenses	162,272
Payroll and other taxes	44,496
Customer accounts expenses	18,280
Bad debt expense	6,694
Total operating expenses	<u>2,247,661</u>

<b>Operating income (loss)</b>	<u>99,127</u>
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**NON-OPERATING REVENUES (EXPENSES)**

Interest income	6,158
Interest expense	(382,469)
Non-utility income - other	2,390
Tap-on fees	30,609
Contributions from customers and developers	6,499
Total non-operating revenues (expenses)	<u>(336,813)</u>

<b>Changes in net position</b>	(237,686)
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<b>TOTAL NET POSITION</b>	<u>6,775,400</u>
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<b>TOTAL NET POSITION - ENDING</b>	<u><u>\$ 6,537,714</u></u>
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The notes to financial statements are an integral part of this statement.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Collections from customers	\$ 2,392,292
Cash paid to suppliers	(611,797)
Cash paid to employees for salaries and benefits	(765,679)

**CASH FLOWS PROVIDED BY  
OPERATING ACTIVITIES**

1,014,816

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Purchases of property, plant and equipment	(42,495)
Principal payments on debt	(640,906)
Interest payments on debt	(417,496)
Capital contributions	30,609
Non-utility income - other	2,390

**CASH FLOWS USED BY  
CAPITAL ACTIVITIES**

(1,067,898)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income	<u>6,158</u>
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**CASH FLOWS PROVIDED BY  
INVESTING ACTIVITIES**

6,158

**NET DECREASE IN CASH AND  
CASH EQUIVALENTS**

(46,924)

**CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR**

715,998

**CASH AND CASH EQUIVALENTS, END OF YEAR**

\$ 669,074

**SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL  
AND FINANCING ACTIVITIES:**

Contributions from developers	<u>\$ 6,499</u>
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Total noncash contributions	<u><u>\$ 6,499</u></u>
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The notes to financial statements are an integral part of this statement.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS (Continued)**  
**For the Year Ended December 31, 2019**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 99,127
Adjustments to reconcile net income (loss) to net cash provided by operations:	
Depreciation and amortization	677,879
Changes in operating assets and liabilities:	
Accounts and other receivables	52,978
Prepaid expenses	(1,381)
Inventory	401
Accounts payable	3,866
Accrued and withheld payroll taxes	6,077
Customer deposits	(780)
Pension, OPEB and related deferrals	176,649
<b>NET CASH PROVIDED BY (USED IN)</b>	
<b>OPERATING ACTIVITIES</b>	<b>\$ 1,014,816</b>

The notes to financial statements are an integral part of this statement.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Crittenden-Livingston County Water District (the District) is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Salem, Kentucky and primarily serves rural Crittenden-Livingston County.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below:

**Principles Determining Scope of Reporting Entity**

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executives of Crittenden and Livingston counties, and they have decision-making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

**Basis of Presentation**

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, deferred outflows/inflows, net position, revenues, and expenses.

**Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the District are charges for water service. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Sales of Water**

Charges to customers for the sale of water are based on rates approved by the Kentucky Public Service Commission (PSC).



**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Budget**

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2019, the District has complied with budgetary guidelines.

**Cash Equivalents/ Investments**

Cash and cash equivalents are deposits with First Southern National Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

**Receivables and Credit Policies**

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 15 days from the invoice date. Unpaid accounts receivable with invoice mailing dates over 15 days old are subject to a 10% penalty on the outstanding balance. Customers are subject to disconnection after 25 days past invoice date. Reconnections are subject to reconnect fees which are recognized as income when received.

Accounts receivable are stated at amounts billed to the customer plus any accrued penalties. Customer account balances with invoices dated over 120 days old are considered delinquent.

Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amounts of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews accounts receivable balances that exceed 120 days from invoice date and; based on an assessment of current credit worthiness, estimates the portion, if any, of the balance that will not be collected. Additionally, for the remaining aggregate accounts, management establishes a general allowance based on historical averages.

**Inventory**

Inventories are generally used for repair and replacement of infrastructure, and connection of new services and are stated at average cost.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2019 are recorded as prepaid items.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets**

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacements of minor items of property are charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs are charged to income as incurred; significant betterments are capitalized. Land and construction in progress are not depreciated. Estimated useful lives are generally those established by the Public Service Commission of the Commonwealth of Kentucky as the following:

<u>Capital asset classes</u>	<u>Years</u>
Buildings	10-50
Transmission Lines	5-50
Plant and Pumping Equipment	5-10
Meters	5-10
Office Equipment & Furniture	5-10
Vehicles	5

Donated assets are stated at fair value on the date donated. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received.

**Unearned Revenue**

The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents the consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in the category, deferred charges – pensions, and deferred charges – other post-employment benefits (OPEB).

A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred pension contribution results from pension contributions subsequent to the measurement date of the pension plan. This amount is deferred and recognized as a component of the change in pension plan liability in the next measurement period. Pension related deferred components include difference between expected and actual experience; the difference between projected and actuarial earnings on pension plan investments results from actual investment earnings above or below actuarial projected earnings; changes in assumptions; and changes in proportion and differences between employer contributions and proportionate share of contributions. These pension related items are deferred and amortized over 3-5 years as a component of the pension expense.

The deferred related pension and OPEB outflows results from pension and OPEB contributions subsequent to the measurement date of the pension plan and OPEB and various changes resulting from actuarial pension and OPEB measurements. The pension and OPEB contribution amounts are deferred and recognized as a component of the change in pension and OPEB plan liabilities in the next measurement period. The various changes resulting from actuarial pension and OPEB measurements are deferred and amortized in future periods as a component of the pension and OPEB expense.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deferred Outflows/Inflows of Resources**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items reported in this category, inflows related to the District's pension and OPEB plans that qualify for reporting in this category – deferred pension and OPEB related inflows. The various changes resulting from actuarial pension and OPEB measurements are deferred and amortized in future periods as a component of the pension and OPEB expense.

**Restricted Assets**

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. 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 needed. See Note C for information describing restricted assets.

**Pensions and Other Postemployment Benefits**

For purposes of measuring the net pension and OPEB liabilities, 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 in the Kentucky Retirement Systems (KRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the KRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the County Employees Retirement System. Investments are reported at fair value.

**Net Position**

In the financial statements, equity is classified as net position and displayed in three components.

- 1) *Net investment in capital assets* - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- 2) *Restricted net position* - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- 3) *Unrestricted net position* - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

**Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Advertising**

The District expenses advertising costs as they are incurred. Such expenses primarily relate to advertising in local directories and requests for invitations to bid on contractual services or construction projects.

**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 disaster. During the year ended December 31, 2019, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent Accounting Pronouncements**

As of December 31, 2019, the GASB has issued the following statements not yet required to be adopted by the District:

**GASB Statement No. 87**

GASB Statement No. 87, *Leases*, was issued in June 2017. The provisions of this Statement are effective for periods beginning after June 15, 2021. This Statement will increase the usefulness of government financial statements by required reporting of certain lease liabilities that currently are not required. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The District's management has not yet determined the effect this statement will have on the financial statements.

**GASB Statement No. 88**

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued in April 2018. The provisions of this pronouncement are effective for periods beginning after June 15, 2019. This pronouncement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The District's management has not yet determined the effect this pronouncement will have on the financial statements.

**GASB Statement No. 89**

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, was issued in June 2018. The provisions of this pronouncement are effective for periods beginning after December 15, 2019. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

**NOTE B - DEPOSITS AND INVESTMENTS**

**1. Net Position**

The captions on the statement of net position for cash, investments and restricted assets enumerated as to deposits and investments, and the amounts in total are as follows:

	<u>Cash on Hand</u>	<u>Demand Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 200	\$ 2,144	\$ -	\$ 2,344
Investments	-	-	-	-
Restricted – cash equivalents	-	666,730	-	666,730
Total	<u>\$ 200</u>	<u>\$ 668,874</u>	<u>\$ -</u>	<u>\$ 669,074</u>

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B - DEPOSITS AND INVESTMENTS (continued)**

**2. Deposits**

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the District, includes disclosure of the following risks:

- a. Risks related to custodial credit risk of deposits;
- b. Deposit and investment policies related to those risks.

Custodial Credit Risk is the risk that in the event of a failure of a depository institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. At year-end, the carrying amount of the District's deposits in financial institutions were \$669,074, and the bank balances were \$810,007. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$61,784 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

The District holds cash deposits in the amount of \$498,223 in the Regions Trust Cash Sweep III (RTCS). RTCS is a bank deposit account offered through Regions Institutional Services. The RTCS does not directly invest in securities. It is a deposit account that is collateralized by government securities. Collateral may include:

- Interest bearing obligations of the U.S. Government
- Senior debt obligations of any U.S. Government Agency
- And/or municipal securities with an underlying rating of A or better.

RTCS is FDIC Insured up to \$250,000. Deposit account amounts in excess of \$250,000 are secured by perfected liens on Regions Bank's securities in an amount not less than 105% of the total excess deposits. In the event of a default, the collateral reverts to the Collateral Agent to be distributed to the account owners. RTCS deposits are identified as "cash" on client statements; there are no market value fluctuations.

The District does not have deposit and investment policies. However, Kentucky Revised Statutes (KRS 66.480) authorized Kentucky municipalities to invest in:

- a) Obligations of the U.S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- c) Savings and loan associations insured by the U.S. government;
- d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U.S. government;
- e) Deposit accounts with banking institutions;
- f) State treasurer investment pool

**3. Investments**

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B - DEPOSITS AND INVESTMENTS (continued)**

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer.

**NOTE C - RESTRICTED CASH**

Restricted cash as of December 31, 2019 consists of the following:

	<u>Depreciation Fund</u>	<u>Sinking Funds</u>	<u>Maintenance/ Replacement</u>	<u>Employee Benefits</u>	<u>Tenant Deposits</u>	<u>Total</u>
Cash equivalents	\$ 68,971	\$ 552,081	\$ 23,939	\$ 11,112	\$ 10,627	\$ 666,730

**Depreciation Reserve** - The bond ordinances require Crittenden Livingston Water District to make monthly contributions to this fund after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. The District is to contribute monthly to the reserve account until an amount equal to one-thirty-sixth (1/36) of the Depreciation Reserve Requirement. At December 31, 2019, the balance of the Depreciation Reserve Fund was \$68,971.

**Crittenden Livingston Water Sinking Fund** - The sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds and Revenue Refunding Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2019, the balance of the Sinking Fund was \$552,081.

**Maintenance/Replacement Reserve Accounts** - The Revenue Refunding Bonds, the Kentucky Infrastructure Authority loans for the Moore Hill Water Tank Radio Read Meters require the District to make monthly contributions to a reserve account for maintenance and replacement expenses. The 2018 Revenue Refunding Bonds require one-forty-eight (1/48) of the maximum debt service requirements. The KIA Moore Hill Water Tank loan requires annual contributions of \$2,600 until a balance of \$26,000 is reached. The KIA Radio Read Meters loan requires a 10% contribution of the loan payment amount until a balance of 5% of the original principal amount (\$15,000) is reached. At December 31, 2019, the balance of the Maintenance/Replacement accounts were \$23,939.

**Health Reimbursement Account** - The District, in an effort to offset rising employee health insurance costs, has established a program, whereby, employees participate in a high-deductible healthcare plan with deductible amounts being paid by the District. At the beginning of each plan year, the amount of each employees deductible is set aside in a separate restricted bank account. As employees incur health care costs, amounts up to the per person deductible are reimbursed to the eligible employee from this account. Any excess left in the account at the end of the plan year is used to fund the maximum amount to be set aside for the following year. As of December 31, 2019, the balance in the Health Reimbursement Account was \$11,112.

**Crittenden Livingston Tenant Deposit Fund** - This account is set aside to account for customer deposits. At December 31, 2019, the restricted balance of the Crittenden Livingston Tenant Deposit Fund was \$10,627.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE D - CAPITAL ASSETS**

The major classifications and related costs of utility plant assets as of December 31, 2019 are as follows:

	<u>Balance as of Dec 31, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of Dec 31, 2019</u>
<b>Capital assets, not being depreciated:</b>				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Land	101,969	6,500	-	108,469
Total capital assets, not being depreciated:	101,969	6,500	-	108,469
<b>Capital assets, being depreciated:</b>				
Lake and river intake	888,411	-	-	888,411
Pumping equipment	307,236	-	-	307,236
Water treatment structure	6,900	-	-	6,900
Water treatment equipment	4,402,784	-	-	4,402,784
Transportation equipment	131,306	10,200	-	141,506
Distribution reservoirs and pipe	1,676,161	-	-	1,676,161
Small equipment	23,073	-	-	23,073
Transmission and distribution	14,161,515	-	-	14,161,515
Lab equipment	6,231	-	-	6,231
Power equipment	73,132	-	-	73,132
Services	6,012,089	-	-	6,012,089
Meters and installation	1,330,969	32,295	-	1,363,264
Communication equipment	183,553	-	-	183,553
Hydrants	228,940	-	-	228,940
Office furniture and fixtures	48,355	-	-	48,355
Office building	74,845	-	-	74,845
Total capital assets, being depreciated	29,555,500	42,495	-	29,597,995
Less accumulated depreciation				
Lake and river intake	(211,160)	(17,769)	-	(228,929)
Pumping equipment	(157,453)	(19,155)	-	(176,608)
Water treatment structure	(4,643)	(685)	-	(5,328)
Water treatment equipment	(1,802,790)	(87,965)	-	(1,890,755)
Transportation equipment	(124,097)	(3,795)	-	(127,892)
Distribution reservoirs and pipe	(293,863)	(33,496)	-	(327,359)
Small equipment	(16,485)	(1,093)	-	(17,578)
Transmission and distribution	(5,212,887)	(283,041)	-	(5,495,928)
Lab equipment	(5,047)	(109)	-	(5,156)
Power equipment	(65,663)	(750)	-	(66,413)
Services	(2,256,735)	(171,767)	-	(2,428,502)
Meters and installation	(574,657)	(38,292)	-	(612,949)
Communication equipment	(50,768)	(11,684)	-	(62,452)
Hydrants	(97,598)	(4,676)	-	(102,274)
Office furniture and fixtures	(44,109)	(674)	-	(44,783)
Office building	(34,414)	(2,928)	-	(37,342)
Total accumulated depreciation	(10,952,369)	(677,879)	-	(11,630,248)
Total capital assets, being depreciated, net:	18,603,131	(635,384)	-	17,967,747
<b>Total District capital assets – net:</b>	<u>\$ 18,705,100</u>	<u>\$ (628,884)</u>	<u>\$ -</u>	<u>\$ 18,076,216</u>

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE E - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES**

A summary of change in deferred outflows/inflows of resources is as follows:

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019
<b>Pensions</b>				
Deferred outflows of resources				
<i>Deferred pension contributions</i>	\$ 40,873	\$ 47,201	\$ (40,873)	\$ 47,201
<i>Changes in proportion and differences between employer contributions and proportionate share of contributions</i>	30,087	-	(10,044)	20,043
<i>Differences between expected and actual experience</i>	37,849	16,893	(20,023)	34,719
<i>Change of assumptions</i>	113,403	140,626	(116,405)	137,624
<i>Pension related deferred outflows</i>	<u>\$ 222,212</u>	<u>\$ 204,720</u>	<u>\$ (187,121)</u>	<u>\$ 239,587</u>
Deferred inflows of resources				
<i>Changes in proportion and differences between employer contributions and proportionate share of contributions</i>	\$ 2,567	\$ -	\$ (1,044)	\$ 1,523
<i>Difference between expected and actuarial experience</i>	16,986	-	(11,241)	5,745
<i>Difference between projected and actuarial earnings</i>	13,913	27,857	(19,850)	21,920
<i>Pension related deferred inflows</i>	<u>\$ 33,466</u>	<u>\$ 27,857</u>	<u>\$ (32,135)</u>	<u>\$ 29,188</u>
<b>Other Post-employment Benefits (OPEB)</b>				
Deferred outflows of resources				
<i>Deferred OPEB contributions</i>	\$ 13,255	\$ 18,622	\$ (13,255)	\$ 18,622
<i>Changes in proportion and differences between employer contributions and proportionate share of contributions</i>	-	2,943	-	2,943
<i>Change of assumptions</i>	67,560	51,964	(23,322)	96,202
<i>OPEB related deferred outflows</i>	<u>\$ 80,815</u>	<u>\$ 73,529</u>	<u>\$ (36,577)</u>	<u>\$ 117,767</u>
Deferred inflows of resources				
<i>Changes in proportion and differences between employer contributions and proportionate share of contributions</i>	\$ 3,124	\$ -	\$ (622)	\$ 2,502
<i>Differences between expected and actual experience</i>	39,422	78,147	(19,477)	98,092
<i>Change of assumptions</i>	782	-	(139)	643
<i>Difference between projected and actuarial earnings</i>	23,301	-	(8,861)	14,440
<i>OPEB related deferred inflows</i>	<u>\$ 66,629</u>	<u>\$ 80,824</u>	<u>\$ (29,365)</u>	<u>\$ 117,818</u>



**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE F – LONG-TERM LIABILITIES**

In May 2008 Crittenden Livingston Water District issued Waterworks Revenue Bonds of 2008 (Series C) in the amount of \$1,920,000 to current refund revenue bonds 1998, 1991, 1994 & 1996 issuances. The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements.

The bond maturity dates are January 1, 2009-2030. This issue was purchased by Morgan, Keegan, and Company, Inc. Interest rates are shown below:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2009	2.35%	2020	4.050%
2010	2.55%	2021	4.050%
2011	3.05%	2022	4.175%
2012	3.05%	2023	4.175%
2013	3.30%	2024	4.300%
2014	3.30%	2025	4.300%
2015	3.55%	2026	4.300%
2016	3.55%	2027	4.425%
2017	4.05%	2028	4.425%
2018	4.05%	2029	4.550%
2019	4.05%	2030	4.550%

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

In March 2013, the District entered into a flexible term finance program with Kentucky Rural Water to refinance the 2004 D Kentucky Rural Water Finance Corporation Bonds, with an interest rate of 3.120%-4.620%, and the 2000 B, with an interest rate of 4.75%, and 2000 C Rural Development Bonds with an interest rate of 4.500%. The total loan amount of \$5,780,000 is divided into two separate loans. The amount of \$3,690,000 is a 15 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014, and the loan will be paid out in 2029. The remaining loan amount of \$2,090,000 is a 27 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014, and the loan will be paid out in 2040.

The following is a summary of changes in bonds payable for the year ended December 31, 2019:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Payable:					
2008 Issue	\$ 925,000	\$ -	\$ (120,000)	\$ 805,000	\$ 130,000
2013 Flexible Term Financing	2,705,000	-	(185,000)	2,520,000	185,000
2013 Flexible Term Financing	1,870,000	-	(55,000)	1,815,000	60,000
2013 Reoffering Premium	169,242	-	(25,706)	143,536	-
Total Long-Term Payables	<u>\$ 5,669,242</u>	<u>\$ -</u>	<u>\$ (385,706)</u>	<u>\$ 5,283,536</u>	<u>\$ 375,000</u>

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE F - LONG-TERM LIABILITIES (Continued)**

The annual debt service requirements to maturity for bonds payable as of December 31, 2019, are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 375,000	\$ 194,639	\$ 569,639
2021	390,000	178,516	568,516
2022	435,000	161,026	596,026
2023	455,000	141,291	596,291
2024	365,000	122,176	487,176
2025-2029	2,000,000	385,063	2,385,063
2030-2034	465,000	169,513	634,513
2035-2039	535,000	78,602	613,602
2040	120,000	2,805	122,805
Total	<u>\$ 5,140,000</u>	<u>\$ 1,433,631</u>	<u>\$ 6,573,631</u>

**Kentucky Infrastructure Authority Notes Payable**

Kentucky Infrastructure Authority (KIA) note dated November 1, 2001, at 1.8%, payable in 40 semiannual payments including principal and interest. Loan funds advanced were used on an interim basis to finance the construction of extensions, additions, and improvements to the existing waterworks system.

In August 2011, Crittenden Livingston Water District was approved for a loan to replace all existing meters with meters utilizing radio-read technology. The total cost of the project is not to exceed \$300,000 and will be financed by the Kentucky Infrastructure Authority under a loan bearing interest at 2%.

In July 2016, Crittenden Livingston Water District was approved for a loan to construct the Moore Hill water tank. The total cost of the project was \$978,850 and will be financed by the Kentucky Infrastructure Authority under a loan bearing interest at 1.75%.

The schedule of notes payable and the maturity schedule follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Payable:					
2001 KIA note payable	\$ 413,106	\$ -	\$ (79,687)	\$ 333,419	\$ 81,128
2011 KIA note payable	229,019	-	(13,761)	215,258	14,038
2016 KIA note payable	918,763	-	(42,457)	876,306	43,203
Total Notes Payables	<u>\$ 1,560,888</u>	<u>\$ -</u>	<u>\$ (135,905)</u>	<u>\$ 1,424,983</u>	<u>\$ 138,369</u>

The annual debt service requirements to maturity for notes payable as of December 31, 2019, are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest &amp; Fees</u>	<u>Total</u>
2020	\$ 138,369	\$ 27,608	\$ 165,977
2021	140,877	24,963	165,840
2022	143,431	22,270	165,701
2023	146,032	19,528	165,560
2024	61,523	17,126	78,649
2025-2029	324,824	66,165	390,989
2030-2034	327,803	31,784	359,587
2035-2037	142,124	4,288	146,412
Total	<u>\$ 1,424,983</u>	<u>\$ 213,732</u>	<u>\$ 1,638,715</u>

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE F - LONG-TERM LIABILITIES (Continued)**

**Leases**

The Fiscal Court of Livingston County, Kentucky, in an Ordinance passed and adopted on August 24, 2010, authorized a plan to payoff a short term note of the Crittenden Livingston Water District in the amount of \$2,500,000 with funds provided to the County by the Kentucky Association of Counties Finance Corporation through a financing agreement between the County and KACO. The Series 2010A Lease was refinanced in 2017.

On September 21, 2017, the District entered into an agreement with Kentucky Association of Counties Finance Corporation to issue Revenue Bonds, 2017 First Series C. The proceeds were used to replace the Series 2010A Lease with Kentucky Association of Counties Finance Corporation, a short term note, the proceeds of which were used to run approximately 90 miles of waterline in Crittenden and Livingston County. The new bonds were issued for \$2,445,000, carry an interest rate of 3.03%, and matures January 1, 2039. These bonds were issued with a lease premium of \$27,882, which will be recognized over the life of the bond.

On May 1, 2018, the District entered into a lease agreement with Kentucky Association of Counties Finance Corporation to issue Revenue Bonds, 2018 Series B. The proceeds were used to replace the 1995 and 2000 USDA Bonds. The new bonds were issued for \$2,090,000, carry an interest rate of 3.44%, and will mature on January 1, 2040. These bonds were issued with a premium of \$54,033, which will be recognized over the life of the bond.

The schedule of leases payable and the maturity schedule follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Leases Payable:					
KACO – 2017C	\$ 2,300,000	\$ -	\$ (75,000)	\$ 2,225,000	\$ 79,583
KACO – 2018B	2,020,000	-	(70,000)	1,950,000	70,000
Premium	75,172	-	(6,701)	68,471	-
Total Leases Payables	<u>\$ 4,395,172</u>	<u>\$ -</u>	<u>\$ (151,701)</u>	<u>\$ 4,243,471</u>	<u>\$ 149,583</u>

The annual debt service requirements to maturity for notes payable as of December 31, 2019, are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest &amp; Fees</u>	<u>Total</u>
2020	\$ 149,583	\$ 165,253	\$ 314,836
2021	155,000	158,287	313,287
2022	159,583	152,687	312,270
2023	169,583	143,746	313,329
2024	179,583	135,543	315,126
2025-2029	1,047,917	540,064	1,587,981
2030-2034	1,238,333	321,630	1,559,963
2035-2039	1,075,418	108,187	1,183,604
2040	-	-	-
Total	<u>\$ 4,175,000</u>	<u>\$ 1,725,397</u>	<u>\$ 5,900,397</u>

Interest expense recognized in the year ending December 31, 2019 is \$382,469.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE F - LONG-TERM LIABILITIES (Continued)**

**Line of Credit**

In August 2017, the District entered into a line of credit agreement with Farmers Bank for the remodel of their office. The line of credit has a limit of \$50,000 with an interest rate of 5.0%. This is a twelve-month revolving line of credit that is re-evaluated at each maturity. There are no payments required. Principal and interest are due at maturity. As of December 31, 2019, the outstanding balance was \$10,157.

**NOTE G - EMPLOYEE RETIREMENT DISTRICT**

The District provides retirement benefits to its employees through a multi-employer public employee retirement fund administered by the Kentucky County Employees Retirement District (CERS). Information regarding this plan is as follows:

**County Employees' Retirement District**

*Plan description* - The District is a participant in the County Employees Retirement District (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement District, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement District administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement District issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided* - 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, non-hazardous and hazardous employees are grouped into three tiers, based on hire date:

*Non-hazardous members:*

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

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE G - EMPLOYEE RETIREMENT DISTRICT (Continued)**

*Hazardous members:*

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	20 years of service and any age Minimum 5 years of service and 55 years old
	Reduced retirement	Minimum 15 years of service and 50 years old
Tier 2	Participation date	September 1, 2008 to December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Minimum 15 years of service and 50 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirements are 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 non-service related disability benefits.

*Plan Funding* – State statute requires active members to contribute a % of creditable compensation based on their tier:

	<u><i>Non-hazardous</i></u>
	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

Employers contribute at the rate determined by the CERS Board to be necessary for the actuarial soundness of the District, as required by KRS 61.565 and 61.752. The District's required contribution rate for non-hazardous employees was 16.22% for the period January 1, 2019 to June 30, 2019; and 19.30% for the period July 1, 2019 to December 31, 2019.

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

At December 31, 2019, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability that was associated with the District was as follows:

	<u>2019</u>
CERS net pension liability associated with the District	<u>\$ 1,359,769</u>

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE G - EMPLOYEE RETIREMENT DISTRICT (Continued)**

The net pension liability for the plan 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 that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the District as determined by the actuary. At June 30, 2019, the District's non-hazardous proportion was 0.019334%.

For the year ended December 31, 2019, the District recognized pension expense of \$263,163 related to CERS pension plans. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to the CERS pension plans from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 34,719	\$ 5,745
Changes in assumptions	137,624	-
Net difference between projected and actual earnings on pension plan investments	-	21,920
Changes in proportion and differences between District contributions and proportionate share of contributions	20,043	1,523
District contributions subsequent to the measurement date	<u>47,201</u>	<u>-</u>
Total	<u>\$ 239,587</u>	<u>\$ 29,188</u>

The District reported \$47,201 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the plan year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Plan Year Ending June 30</u>
	<u>Non- Hazardous</u>
2020	\$ 106,575
2021	\$ 39,139
2022	\$ 15,928
2023	\$ 1,556

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

	<u>2019</u>
Inflation	2.30%
Projected salary increases	3.30% -10.30%
Investment rate of return, net of investment expense & inflation	6.25%

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE G - EMPLOYEE RETIREMENT DISTRICT (Continued)**

For CERS plan year ending June 30, 2019, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males). The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2013 through 2018, is outlined in a report dated April 14, 2019. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. .

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Real Return (Diversified Inflation Strategies)	15.00%	4.10%
Opportunistic	3.00%	2.97%
Real Estate	5.00%	4.85%
Core Bonds	13.50%	1.35%
Cash Equivalent	1.00%	0.20%
Total	<u>100.00%</u>	

*Discount rate* – For the plan years ended June 30, 2019 the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25% in 2019. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE G – EMPLOYEE RETIREMENT DISTRICT (Continued)**

*Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate* – The following table presents the net pension liability of the District, calculated using the discount rates selected by the pension District, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

For plan year ended June 30, 2019	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<b>CERS</b>	5.25%	6.25%	7.25%
Non-hazardous' proportionate share of net pension liability	\$ 1,700,685	\$ 1,359,769	\$ 1,075,618

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

**NOTE H – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**CERS Medical Insurance Plan**

*Plan description* – the District contributes to the Kentucky Retirement Districts Insurance fund (Insurance Fund), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Kentucky Retirement Districts (KRS). The Insurance Fund was established to provide hospital and medical insurance for members for receiving benefits from the Kentucky Employees Retirement Districts (KERS), the County Employees Retirement District (CERS), and the State Police Retirement District (SPRS).

*Benefits provided* – the Insurance Fund pays a prescribed contribution for whole or partial payments of required premiums to purchase hospital and medical insurance, based on years of service, for retirees and certain eligible beneficiaries. The authority to establish and amend benefit provisions rests with the Kentucky General Assembly. KRS issues a publicly available financial report that can be obtained at [www.kyret.ky.gov](http://www.kyret.ky.gov).

*Contributions* – per Kentucky Revised Statutes 78.545 (33), contribution requirements are established and may be amended by the KRS Board. The District's required contribution rate for non-hazardous employees was 5.26% for the period January 1, 2019 to June 30, 2019; and 4.76% for the period July 1, 2019 to December 31, 2019.

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

At December 31, 2019, the District reported a liability for its proportionate share of the net OPEB liability for the CERS Insurance Trust. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the collective 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 employers, actuarially determined. At June 30, 2019, the District's proportion was 0.019329 percent.

The amount recognized by the District as its proportionate share of the OPEB liability that was associated with the District was as follows:

District's proportionate share of the CERS medical insurance liability	\$ 325,105
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**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE H – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

For the year ended December 31, 2019, the District recognized OPEB expenses of \$35,593. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 98,092
Changes in assumptions	96,202	643
Net difference between projected and actual earnings		
On OPEB plan investments	-	14,440
Changes in proportion and differences between District contributions and proportionate share of contributions	2,943	2,502
District contributions subsequent to the Measurement date	18,622	-
Total	<u>\$ 117,767</u>	<u>\$ 115,677</u>

The District reported \$18,622 as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Fiscal Year Ending June 30</u>
2020	\$ (2,483)
2021	\$ (2,483)
2022	\$ 2,108
2023	\$ (6,686)
2024	\$ (6,013)
Thereafter	\$ (975)

*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:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% - 10.30%
Inflation rate	2.30%
Wage Inflation	2.00%
Healthcare cost trend rates	
Under 65	7.00% at January 1, 2020 and gradually decreasing to an ultimate rate of 4.05% over a period of 12 years
Ages 65 and Older	5.00% at January 1, 2020 and gradually decreasing to an ultimate rate of 4.05% over a period of 10 years
Municipal Bond Index Rate	3.13%
Discount Rate	5.68%

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE H – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

Mortality rates used for active members is RP-2000 Combined Mortality Table projected with scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with scale BB to 2013 (set-back for one year for females). The RP-2000 Disabled Mortality Table projected with scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Real Return (Diversified Inflation Strategies)	15.00%	4.10%
Opportunistic	3.00%	2.97%
Real Estate	5.00%	4.85%
Core Bonds	13.50%	1.35%
Cash Equivalent	1.00%	0.20%
Total	<u>100.0%</u>	

*Discount rate* - The discount rate used to measure the total OPEB liability was 5.68%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the District, calculated using the discount rate of 5.68%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	4.68%	5.68%	6.68%
District and State's proportionate share of net OPEB liability	\$ 435,507	\$ 325,105	\$ 234,140

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE H – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

*Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates* – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's proportionate share of net OPEB liability	4.68%	5.68%	6.68%
	\$ 241,782	\$ 325,105	\$ 426,140

**NOTE I - COMMITMENTS**

**Sales Contracts**

In 2000, the District entered into a 40-year sales agreement with the City of Grand Rivers, Kentucky. The agreement is for the City to purchase five million gallons per month. The City purchased water totaling \$176,588 in the year ending December 31, 2019.

In 2000, the District entered into a 40-year sales agreement with the City of Smithland, Kentucky. The agreement is for the City to purchase one million gallons per month. The City purchased water totaling \$38,218 in the year ending December 31, 2019.

In 2000, the District entered into a 40-year sales agreement with the City of Ledbetter, Kentucky. The agreement is for the City to purchase three million gallons per month. The City purchased water totaling \$96,506 in the year ending December 31, 2019.

In 2016, the District entered into a 41-year sales agreement with the Lyon County Water District. The agreement does not have per month minimum. The District purchased \$35,903 of water in the year ending December 31, 2019.

In 1971, the District entered into a sales agreement with the City of Salem, Kentucky. The agreement does not have per month minimum. The City purchased \$63,315 of water in the year ending December 31, 2019.

**NOTE J - CONCENTRATION**

The majority of the District's revenue consists of charges for water-related services to customers in Crittenden-Livingston County, Kentucky.

**NOTE K – COMPENSATED ABSENCES**

The District grants employees vacation time based on years of service. Full-time employees, with one (1) year continuous service, are entitled to vacation pay according to the following schedule:

- Anniversary of 1 year of service - 5 days
- Anniversary of 2 years of service - 10 days
- Anniversary of 5 years of service - 15 days
- Anniversary of 10 years of service - 20 days

Vacation must be taken in the calendar year of eligibility. The policy applies to all employees. All employees must make an effort to take their vacation time.

The District's policy on personal days is to allow employees three days per year. This can be used for anything from sickness to family emergencies.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE K – COMPENSATED ABSENCES (Continued)**

An employee may reserve overtime as comp time. One hour of overtime equals 1 and 1/2 hours of comp time. A maximum of 60 hours may be accumulated.

**NOTE M – LITIGATION**

On July 13, 2015, litigation was brought against Crittenden-Livingston County Water District. The litigation involves a water purchase contract dispute with another water district that is a customer. Currently, the other water district is contracted to purchase 3,000,000 gallons a month for 40 years from Crittenden-Livingston County Water District. Although the contract between the water districts began on January 24, 2000, the plaintiff contends the contract is void. If the water purchase contract is ultimately ruled void, and, if no water is purchased by this customer then Crittenden-Livingston County Water District could have a reduction of \$92,880 of current minimum annual gross revenue or \$53,640 of current minimum net operating income. The likelihood of any loss of revenue, or net operating income, concerning this water contract dispute is unknown at this time. As of December 31, 2019, this is still unresolved.

**NOTE N - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through July 27, 2020, the date that the financial statements were available to be issued.

Subsequent to year-end, the KY Supreme Court (Court) ruled in favor of the plaintiff lawsuit as described in Note M. The Court returned the lawsuit to the Livingston Circuit Court for the counterclaim against Ledbetter Water & Sewer District regarding reimbursement for expense of providing service line and other improvements.

**REQUIRED SUPPLEMENTAL INFORMATION**

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS\***

<u>Year Ended June 30</u>	<u>District's proportion of the net pension liability</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered employee payroll</u>	<u>District's share of the net pension liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
<b><u>CERS Nonhazardous</u></b>					
2019	0.01933%	\$ 1,359,769	\$ 494,480	274.9897%	50.4470%
2018	0.01905%	\$ 1,160,386	\$ 471,761	245.9690%	53.5420%
2017	0.01913%	\$ 1,119,767	\$ 443,619	252.4164%	53.3249%
2016	0.00180%	\$ 884,966	\$ 469,149	188.6322%	55.5028%
2015	0.00160%	\$ 689,178	\$ 375,904	183.3388%	59.9684%
2014	0.00865%	\$ 280,671	\$ 393,724	71.2862%	66.8010%

\* The amounts presented were determined as of the measurement date June 30 of the prior year.

\* Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
TO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS\***

<u>Year Ended June 30</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<b><u>CERS Nonhazardous</u></b>					
2019	\$ 85,368	\$ 85,368	\$ -	\$ 488,748	17.4667%
2018	\$ 75,976	\$ 75,976	\$ -	\$ 494,480	15.3648%
2017	\$ 63,013	\$ 63,013	\$ -	\$ 471,761	13.3570%
2016	\$ 61,650	\$ 61,650	\$ -	\$ 443,619	13.8971%
2015	\$ 47,585	\$ 47,585	\$ -	\$ 469,149	10.1428%
2014	\$ 74,682	\$ 74,682	\$ -	\$ 375,904	19.8673%

\* The amounts presented for each fiscal year were determined as of the measurement date June 30 of the prior year.

\* Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**Notes to Required Supplementary Information  
For the Year Ended June 30, 2019**

***Changes of Benefit Terms:***

A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

***Changes of assumptions:***

The assumed investment rate of return was 6.25%.

The assumed rate of inflation was 2.30%.

Payroll growth assumption was 3.30% - 10.30%, varies by service.

The assumptions were updated as of result of an experience study for the five year period ending June 30, 2018.

The amortization period of the unfunded accrued liability was reset to a closed 30 year period for the year ended June 30, 2013.

The mortality tables used was updated to RP-2000 Combined Mortality Table projected with Scale BB to 2013.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET MEDICAL**  
**INSURANCE LIABILITY - TO COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**LAST 10 FISCAL YEARS\***

<u>Year Ended June 30</u>	<u>District's proportion of the net meducal plan liability</u>	<u>District's proportionate share of the net medical plan liability (asset)</u>	<u>District's covered employee payroll</u>	<u>District's share of the net medical plan liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total medical plan liability</u>
<b><u>CERS Nonhazardous</u></b>					
2019	0.01905%	\$ 325,105	\$ 494,480	65.7468%	60.4382%
2018	0.01905%	\$ 338,282	\$ 471,761	71.7062%	57.6218%
2017	0.01913%	\$ 384,599	\$ 443,619	86.6958%	52.3940%

\* The amounts presented were determined as of the measurement date June 30 of the prior year.

\* Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.



**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS - MEDICAL INSURANCE PLAN  
COUNTY EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS\***

<u>Year Ended June 30</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<b><u>CERS Nonhazardous</u></b>					
2019	\$ 24,016	\$ 24,016	\$ -	\$ 488,748	4.9138%
2018	\$ 24,661	\$ 24,661	\$ -	\$ 494,480	4.9873%
2017	\$ 20,722	\$ 20,722	\$ -	\$ 471,761	4.3925%

\* The amounts presented for each fiscal year were determined as of the measurement date June 30 of the prior year.

\* Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**Notes to Required Supplementary Information  
For the Year Ended June 30, 2019**

***Changes of Benefit Terms:***

A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

***Changes of assumptions:***

The assumed investment rate of return was 6.25%.

The assumed rate of inflation was 2.30%.

Payroll growth assumption was 3.30% - 10.30%, varies by service.

The assumptions were updated as of result of an experience study for the five year period ending June 30, 2018.

The amortization period of the unfunded accrued liability was reset to a closed 30 year period for the year ended June 30, 2013.

The mortality tables used was updated to RP-2000 Combined Mortality Table projected with Scale BB to 2013.

**OTHER SUPPLEMENTAL INFORMATION**

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -**  
**BUDGET AND ACTUAL**  
**For the Year Ended December 31, 2019**

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>OPERATING REVENUE</b>				
Sales of water, net of refunds	\$ 2,427,000	\$ 2,385,000	\$ 2,280,315	\$ (104,685)
Other	58,000	55,000	66,473	11,473
Total operating revenues	<u>2,485,000</u>	<u>2,440,000</u>	<u>2,346,788</u>	<u>(93,212)</u>
<b>OPERATING EXPENSES</b>				
Depreciation expense	669,200	669,800	677,879	(8,079)
Transmission and distribution expenses	707,700	691,000	678,925	12,075
Administrative and general expenses	490,400	474,000	659,115	(185,115)
Water treatment expenses	158,000	163,000	162,272	728
Payroll and other taxes	45,000	40,600	44,496	(3,896)
Customer accounts expenses	24,000	24,000	18,280	5,720
Bad debt expense	4,000	6,900	6,694	206
Total operating expenses	<u>2,098,300</u>	<u>2,069,300</u>	<u>2,247,661</u>	<u>(178,361)</u>
<b>Operating income (loss)</b>	<u>386,700</u>	<u>370,700</u>	<u>99,127</u>	<u>(271,573)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	1,500	6,000	6,158	158
Interest expense	(438,200)	(438,200)	(382,469)	55,731
Non-utility income - other	-	-	2,390	2,390
Tap-on fees	22,000	38,000	30,609	(7,391)
Contributions from customers and developers	-	-	6,499	6,499
Total non-operating revenues (expenses)	<u>(414,700)</u>	<u>(394,200)</u>	<u>(336,813)</u>	<u>57,387</u>
<b>Changes in net position</b>	<u>\$ (28,000)</u>	<u>\$ (23,500)</u>	<u>(237,686)</u>	<u>\$ (214,186)</u>
<b>TOTAL NET POSITION - BEGINNING</b>			<u>6,775,400</u>	
<b>TOTAL NET POSITION - ENDING</b>			<u>\$ 6,537,714</u>	

See the independent auditors' report.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT**  
**DETAIL SCHEDULE OF OPERATING EXPENSES**  
**For the Year Ended December 31, 2019**

<b>Depreciation expense</b>	<u>\$ 677,879</u>
<b>General operating expenses</b>	
Salaries	128,211
Employee pension and benefits	286,169
Employee health insurance	71,949
Repairs and maintenance	32,806
Insurance	34,667
Office supplies	16,896
Fuel	19,178
Legal & professional	31,479
Utilities	15,695
Utility regulation assessment fee	4,739
Advertising	-
Seminar	3,888
Bank charges	3,153
Dues & subscriptions	3,125
Rent	1,000
Uniforms	5,636
Miscellaneous	524
Total general operating expenses	<u>659,115</u>
<b>Transmission and distribution expenses</b>	
Salaries	417,580
Repairs and maintenance	88,609
Utilities	147,125
Supplies and materials	25,611
Total transmission and distribution expenses	<u>678,925</u>
<b>Payroll and other taxes</b>	<u>44,496</u>
<b>Customer accounts expenses</b>	
Postage	18,280
Total customer accounts expenses	<u>18,280</u>
<b>Water treatment expenses</b>	
Chemicals	137,883
Testing	24,389
Total water treatment expenses	<u>162,272</u>
<b>Bad debt expense</b>	<u>6,694</u>
<b>Total operating expenses</b>	<u><u>\$ 2,247,661</u></u>

See the independent auditors' report.

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

Board of Commissioners  
Crittenden-Livingston County Water District  
Salem, KY

We have audited, 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, the financial statements of the business-type activities of Crittenden-Livingston County Water District as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Crittenden-Livingston County Water District's basic financial statements, and have issued our report thereon dated July 27, 2020.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 deficiency in internal control, described in the accompanying *schedule of findings and responses* that we consider to be a material weakness (reference #2019-1).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Crittenden-Livingston County Water District's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

**Crittenden-Livingston County Water District's Response to Findings**

Crittenden-Livingston County Water District's response to the findings identified in our audit are described in the accompanying *schedule of findings and responses*. Crittenden-Livingston County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Kemper CPA Group, LLP*

Certified Public Accountants and Consultants  
Paducah, Kentucky  
July 27, 2020

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2019**

**Reference # 2019-1**

The District does not have adequate segregation of duties related to recording receipts and disbursements.

**Criteria**

The basic premise of a good system of internal control is no one person should have access to the entity's assets and responsibility for the related accounting records.

**Cause**

Due to limit administrative staff size, the District does not have adequate personnel available to properly segregate duties over processing, recording, and reconciling receipts and disbursements to the underlining accounting records.

**Effect**

There is increased risk of error or misappropriation of receipts and disbursements occurring and not timely detected by management.

**Recommendation**

We recommend the District consider adding additional personnel in the area of processing, recording, and reconciling receipts and disbursements to the underlining accounting records.

**Response**

We concur with the recommendation and finding. The District Board will discuss the matter with key personnel.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2018**

**Reference # 2018-1**

The District does not have adequate segregation of duties over cash receipts and disbursements. The basic premise in a good District of internal control is that an employee should not have access to assets and responsibility for the related accounting records.

**Status**

This finding is still present.