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COMMISSION

August 26, 2020

Mr. Jeff Cline  
PSC  
P.O. Box 615  
Frankfort, KY. 40602-0615

RE: McCreary County Water District  
December 31, 2019 and 2018 Annual Report  
Water & Sewer Divisions

Dear Mr. Cline:

Please find enclosed is the McCreary County Water District Independent Auditor's Report and Combined Financial Statements December 31, 2019 and 2018 for both the water and sewer divisions.

If you have any questions, please feel free to contact me at (606) 376-2540.

Sincerely,

Stephen Whitaker, Manager/Supt.  
McCreary County Water District

SW/kt

Enclosure

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COMMISSION

McCreary County Water District  
Water and Sewer Divisions

\* \* \* \*

Independent Auditor's Report  
and Combined Financial Statements  
December 31, 2019 and 2018

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

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**MCCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019 AND 2018**

Our discussion and analysis of the McCreary County Water District, Water and Sewer Divisions' financial performance provides an overview of the Company's financial activities for the years ended December 31, 2019 and 2018. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ended December 31, 2019, total operating and non-operating revenues (including capital contributions) totaled \$4,714,380 and operating expenses and non-operating expenses amounted to \$6,252,102, creating a decrease in net position of \$1,537,722. At year end, net position totaled \$24,280,590 of which \$26,587,542 (net of related debt) was invested in capital assets, and \$698,147 was restricted for debt service and construction. This left a net amount of \$(3,005,099) of unrestricted net position.

For the year ended December 31, 2018, total operating and non-operating revenues (including capital contributions) totaled \$4,548,477 and operating expenses and non-operating expenses amounted to \$6,223,385, creating a decrease in net position of \$1,674,908. At year end, net position totaled \$25,818,312 of which \$27,457,965 (net of related debt) was invested in capital assets, and \$721,751 was restricted for debt service and construction. This left a net amount of \$(2,361,404) of unrestricted net position.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis, Financial Statements and Supplementary information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of McCreary County Water District, Water and Sewer Divisions report information of the Company using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to utility creditors (liabilities). It also provides the basis for evaluation of the capital structure of the utility and assessing the liquidity and financial flexibility of the utility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the utility's operations over the past year and can be used to determine whether the utility has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019 AND 2018

Condensed Comparative Financial Analysis:

McCreary County Water District  
Water and Sewer Divisions  
Statements of Net Position-Summary  
December 31, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Total Current Assets	\$ 1,140,490	\$ 1,189,079
Total Restricted Assets	698,147	721,751
Net Capital Assets	37,752,660	38,566,577
Total Assets	<u>\$ 39,591,297</u>	<u>\$ 40,477,407</u>
Deferred Outflows of Resources	<u>822,102</u>	<u>756,068</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 40,413,399</u>	<u>\$ 41,233,475</u>
Liabilities		
Total Current Liabilities	\$ 1,693,637	\$ 962,309
Total Non-current Liabilities	14,050,896	14,225,782
Total Liabilities	<u>\$ 15,744,533</u>	<u>\$ 15,188,091</u>
Deferred Inflows of Resources	<u>\$ 388,276</u>	<u>\$ 227,072</u>
Net Position:		
Invested in capital assets, net of related debt	\$ 26,587,542	\$ 27,457,965
Restricted for debt service and construction	698,147	721,751
Unrestricted	(3,005,099)	(2,361,404)
Total Net Position	<u>\$ 24,280,590</u>	<u>\$ 25,818,312</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 40,413,399</u>	<u>\$ 41,233,475</u>

The largest portion per year (109.50% and 106.35% respectively) of the utility's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The utility used these capital assets to provide services to citizens and consumers. Consequently, these assets are not available for future spending.

Restricted net position per year (2.87% and 2.79% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (-12.37% and -9.14% respectively) of unrestricted net position may be used to meet the utility's ongoing obligations to citizens, consumers and creditors.

MCCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019 AND 2018

McCreary County Water District  
Water and Sewer Divisions  
Statements of Operations  
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Total operating revenues	\$ 4,459,832	\$ 4,164,004
Total operating expenses	<u>5,900,870</u>	<u>5,697,519</u>
Operating loss	(1,441,038)	(1,533,515)
Net non-operating expenses	<u>(130,538)</u>	<u>(404,305)</u>
Loss before capital contributions	(1,571,576)	(1,937,820)
Capital contributions	<u>33,854</u>	<u>262,912</u>
Change in net position	(1,537,722)	(1,674,908)
Beginning of year	<u>25,818,312</u>	<u>27,493,220</u>
End of year	<u>\$ 24,280,590</u>	<u>\$ 25,818,312</u>

During 2019, net position decreased by \$1,537,722 and consisted of an operating loss of (\$1,441,038), net non-operating revenue and expenses of (\$130,538) and capital contributions of \$33,854.

During 2018, net position decreased by \$1,674,908 and consisted of an operating loss of (\$1,533,515), net non-operating revenue and expenses of (\$404,305) and capital contributions of \$262,912.

Capital Asset Changes

At December 31, 2019, the Utility had invested \$37,752,660 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$813,917 from the previous year. The net decrease consisted of additions to capital assets of \$807,869 less depreciation expense of \$1,621,786. The additions were mainly financed with proceeds of debt borrowings.

At December 31, 2018, the Utility had invested \$38,566,577 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$144,124 from the previous year. The net decrease consisted of additions to capital assets of \$1,646,555 less depreciation expense of \$1,575,079 and \$215,600 in disposals. The additions were mainly financed with proceeds of debt borrowings.

Debt Administration

At December 31, 2019, the utility had total debt equal to \$11,165,118 which consisted of \$9,424,200 of bonds outstanding, \$1,740,918 of notes payable, and capital leases of \$0. At the beginning of the year total debt equaled \$11,108,612. The increase in debt of \$56,506 was due to additions to debt of \$517,918 less scheduled principal payments of \$461,412.

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019 AND 2018

At December 31, 2018, the utility had total debt equal to \$11,108,612 which consisted of \$9,816,257 of bonds outstanding, \$1,292,355 of notes payable, and capital leases of \$0. At the beginning of the year total debt equaled \$10,200,271. The increase in debt of \$908,341 was due to additions to debt of \$1,292,355 less scheduled principal payments of \$384,014.

Other Matters

During 2015, the District implemented GASB No. 68, Accounting and Financial Reporting for Pensions. This standard requires cost sharing governments to report a net pension liability, pension expense and pension related deferred inflows and outflows of resources based upon their proportionate share of the collection amounts for all the governments in the plan; therefore, included in long term liabilities is a net pension liability of \$3,111,418 for 2019, and \$2,770,845 for 2018.

During 2018, the District retrospectively implemented GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). This standard requires cost-sharing governments to report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the participants in the plan. Therefore, included in long-term liabilities is a net OPEB liability of \$743,912 for 2019 and \$807,737 for 2018.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of McCreary County Water District, Water and Sewer Divisions' finances and to demonstrate the utility's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the McCreary County Water District, Whitley City, Kentucky.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653

**Report on the Financial Statements**

We have audited the accompanying combined financial statements of the business-type activities of McCreary County Water District, Water and Sewer Divisions as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit includes 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



McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
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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 combined financial statements referred to above present fairly, in all material respects, the respective financial position of McCreary County Water District, Water and Sewer Divisions as of December 31, 2019 and 2018 and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

#### **Change in Accounting Principle**

As described in Note 13 to the financial statements, in 2018 McCreary County Water District adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Also described in Note 1 to the financial statements, in 2019, McCreary County Water District adopted new accounting guidance, *ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

#### **Other Matters**

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of proportionate share of the net pension and OPEB liabilities and the schedule of contributions on pages 1 through 4 and 38 through 42 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 combined financial statements that collectively comprise McCreary County Water District, Water and Sewer Divisions' basic financial statements. The accompanying combining statements of net position, revenues, expenses and changes in net position, and cash flows are presented for purposes of additional analysis, and are not a required part of the combined financial statements of the McCreary County Water District, Water and Sewer Divisions.

The combining statements referred to above 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 combined financial statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2020, on our consideration of McCreary County Water District, Water and Sewer Divisions' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCreary County Water District's internal control over financial reporting and compliance.

***Faulkner, King & Wenz, PSC***

August 20, 2020

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF NET POSITION  
DECEMBER 31, 2019 and 2018

**ASSETS**

	2019	2018
<b>Current assets:</b>		
Cash and cash equivalents	\$ 268,058	\$ 405,591
Unbilled revenues	292,607	242,315
Accounts receivable	383,580	359,356
Other receivables	44,525	9,940
Inventory	134,164	149,233
Prepaid expenses	17,556	22,644
Total current assets	<u>1,140,490</u>	<u>1,189,079</u>
<b>Non-current assets:</b>		
Restricted assets:		
Cash and cash equivalents	343,969	378,518
Investments	354,178	343,233
Capital assets:		
Utility plant	63,112,598	63,022,678
Less accumulated depreciation	(26,061,117)	(24,456,101)
Construction in process	701,179	-
Total non-current assets	<u>38,450,807</u>	<u>39,288,328</u>
<b>Deferred Outflows of Resources:</b>		
Deferred outflows - OPEB	280,688	225,152
Deferred outflows - pension	541,414	530,916
Total deferred outflows	<u>822,102</u>	<u>756,068</u>
Total assets and deferred outflows of resources	<u>\$ 40,413,399</u>	<u>\$ 41,233,475</u>

**LIABILITIES**

<b>Current liabilities:</b>		
Accounts payable	\$ 326,345	\$ 156,448
Accrued interest	131,668	130,193
Taxes payable	18,651	17,516
Other accrued liabilities	194,063	148,475
Implicit subsidy - OPEB	15,973	13,030
Customer deposits	37,385	35,235
Notes payable - current	563,945	69,355
Revenue bonds - current portion	405,607	392,057
Total current liabilities	<u>1,693,637</u>	<u>962,309</u>
<b>Non-current liabilities:</b>		
Revenue bonds - net current portion	9,018,593	9,424,200
Notes payable	1,176,973	1,223,000
Net OPEB liability	743,912	807,737
Net pension liability	3,111,418	2,770,845
Total non-current liabilities	<u>14,050,896</u>	<u>14,225,782</u>
Total liabilities	<u>15,744,533</u>	<u>15,188,091</u>

**Deferred Inflows of Resources**

Deferred inflows - OPEB	281,476	153,288
Deferred inflows - pension	106,800	73,784
Total deferred inflows	<u>388,276</u>	<u>227,072</u>

**NET POSITION**

Invested in capital assets, net of related debt	26,587,542	27,457,965
Restricted for debt service and construction	698,147	721,751
Unrestricted	(3,005,099)	(2,361,404)
Total net position	<u>24,280,590</u>	<u>25,818,312</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 40,413,399</u>	<u>\$ 41,233,475</u>

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

**MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating revenues</b>		
Residential sales	\$ 2,651,157	\$ 2,568,952
Commercial sales	420,078	375,334
Industrial sales	11,258	9,817
Governmental sales	1,233,977	1,099,619
Other sales	143,362	110,282
Total operating revenues	<u>4,459,832</u>	<u>4,164,004</u>
<b>Operating expenses</b>		
General and administrative costs	203,604	252,560
Payroll and related expenses	2,669,581	2,449,977
Repairs and maintenance	195,657	165,590
Other supplies and expenses	1,210,242	1,254,313
Depreciation and amortization	1,621,786	1,575,079
Total operating expenses	<u>5,900,870</u>	<u>5,697,519</u>
Operating loss	<u>(1,441,038)</u>	<u>(1,533,515)</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income	13,376	9,800
Other income	203,118	95,284
Loss on abandonment of fixed assets	-	(215,345)
Gain on sale of fixed assets	4,200	16,477
Interest expense	(351,232)	(310,521)
Net nonoperating expenses	<u>(130,538)</u>	<u>(404,305)</u>
Loss before contributions	(1,571,576)	(1,937,820)
Capital grants received	<u>33,854</u>	<u>262,912</u>
Change in net position	(1,537,722)	(1,674,908)
Total net position beginning of year	<u>25,818,312</u>	<u>27,493,220</u>
Total net position end of year	<u>\$ 24,280,590</u>	<u>\$ 25,818,312</u>

The accompanying notes are an integral part of the financial statements

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 4,350,711	\$ 4,150,332
Operating expenses:		
General and administrative	(203,604)	(252,560)
Payroll and related expenses	(2,294,720)	(2,078,921)
Repairs and maintenance	(195,657)	(165,590)
Other supplies and expenses	(971,315)	(1,178,923)
Net cash provided by operating activities	<u>685,415</u>	<u>474,338</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(807,869)	(1,646,555)
Proceeds from sale of capital assets	4,200	16,642
Principal paid on debt	(461,412)	(384,014)
Proceeds from debt borrowings	517,918	1,292,355
Interest paid on debt	(349,757)	(305,400)
Capital contributions	33,854	262,912
Net cash used in capital and related financing activities	<u>(1,063,066)</u>	<u>(764,060)</u>
<b>Cash Flows from Investing Activities</b>		
Interest income from investments	13,396	10,393
Other cash receipts	203,118	95,284
Net cash provided by investing activities	<u>216,514</u>	<u>105,677</u>
 Net decrease in cash, cash equivalents, and restricted cash	 (161,137)	 (184,045)
 Cash, cash equivalents, and restricted cash at beginning of year	 <u>1,127,342</u>	 <u>1,311,387</u>
 Cash, cash equivalents, and restricted cash at end of year	 <u>\$ 966,205</u>	 <u>\$ 1,127,342</u>
 Unrestricted cash and cash equivalents	 \$ 268,058	 \$ 405,591
Restricted cash and cash equivalents	<u>698,147</u>	<u>721,751</u>
 Total cash and cash equivalents, at end of year	 <u>\$ 966,205</u>	 <u>\$ 1,127,342</u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Non-cash transactions:

Donation of land from Fiscal Court	<u>\$ -</u>	<u>\$ 70,000</u>
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The accompanying notes are an integral part of the financial statements.



MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,441,038)	\$ (1,533,515)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,621,786	1,575,079
Bad debt expense	-	8,860
Change in assets and liabilities:		
Decrease in receivables	(109,121)	(22,532)
Decrease in inventories	15,069	42,899
Decrease (increase) in prepaids	5,088	4,291
Decrease in accounts payable	169,897	(2,061)
Increase in customer deposits	2,150	1,143
Increase (decrease) in accrued expenses	46,723	29,118
Increase in net OPEB obligation	11,770	42,896
Increase in net pension obligation	363,091	328,160
Net cash provided by operating activities	<u>\$ 685,415</u>	<u>\$ 474,338</u>

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the McCreary County Water District, Water and Sewer Divisions (the District) conform to accounting principles generally accepted in the United States of America (GAAP). The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

**Reporting Entity**

The District, consisting of McCreary County Water District Water Division, and McCreary County Water District Sewer Division has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water and sewer service within the confines of McCreary County, Kentucky and East Pine Knot Estates. McCreary County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it: is legally separate; holds corporate powers of organization; the Fiscal Court does not impose their will upon the District; and the District does not impose financial benefit or burden upon the Fiscal Court.

**Basis of Presentation**

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34) established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The District is an individual fund and is accounted for as a business-type activity fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The District's financial statements are prepared on the accrual basis of accounting. By utilizing this method, revenues are recognized when they are earned, and expenses are recognized as they are incurred.

Operating income reported in the financial statements includes revenues and expenses related to the continuing operation of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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.

**Use of Estimates and Assumptions**

In preparing financial statements that conform with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Accordingly, actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the allowance for doubtful accounts for accounts receivable.

**Compensated Absences**

Vacation - Vacation days are accrued at the following rate:

- 5 days per year for years 1-3
- 10 days per year for years 3-10
- 15 days per year for years 10-15
- 20 days per year for years 15-xx

These days are carried over if unused to a maximum of 30 days; however, all full-time employees with over three years must take ten days of vacation per year.

Sick - Employees earn two sick days for every two months of employment and may carry over a total of twelve days.

These unpaid compensated absences, if applicable, are recorded as accrued liabilities.

McCREARY COUNTY WATER DISTRICT  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturity of ninety days or less to be cash equivalents.

**Accounts Receivable**

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management closely monitors outstanding balances and writes off balances that are deemed to be uncollectible. The allowance for doubtful accounts of \$218,800 and \$233,400 for the years ended December 31, 2019 and 2018 has been established to reserve for those balances that the entity believes to be uncollectible.

**Inventories**

Inventories are stated at the lower of cost or market on the basis of "first-in, first-out" (FIFO) inventory method.

**Capital and operating grants**

Grants that are restricted to the purchase of capital assets are recorded as other income, per GASB 33. The District received \$33,854 and \$262,912 in grants for the years ended December 31, 2019 and 2018 respectively.

**Capital Assets**

Utility plant is stated at original cost and depreciated over its estimated useful lives using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. Renewals and betterments are capitalized. The range of useful lives used in computing depreciation is:

<u>Classification</u>	<u>Range of lives</u>
Buildings	40 years
Water systems	40 years
Machinery & equipment	5 years

Total depreciation expense was \$1,621,786 and \$1,575,079 for the years ended December 31, 2019 and 2018 respectively.

**Pensions**

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Change in Accounting Principle**

During 2019, the District adopted ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." His guidance changes how entities present and disclose their restricted cash and cash equivalents. It is designed to improve the information provided by companies for better understanding of their operations.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be FDIC insured banking institutions; depositories must fully insure or collateralize all demand and time deposits and repurchase agreements; and securities collateralizing repurchase agreements are to be held by independent third parties.

**Bank Deposits**

The fair market value of deposits and investments was equivalent to the reported values. All deposits are checking or savings accounts. The carrying amount of the District's bank deposits was \$965,205 and \$1,126,342 for the years ended December 31, 2019 and 2018 respectively and the respective bank balances totaled \$1,016,939 and \$1,165,783 respectively for the years then ended. The bank balances are covered by \$607,507 of FDIC insurance. The remaining bank balances were fully collateralized. The deposits are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Deposits at December 31, 2019, categorized by level of risk, are:

	Risk Category			Bank	Book
	1	2	3	Balance	Value
Unrestricted deposits					
Operating accounts	\$ 153,130	\$ -	\$ 165,662	\$ 318,792	\$ 267,058
Depreciation funds	-		-	-	-
Restricted deposits					
Debt service and					
Depreciation funds	100,199	-	243,770	343,969	343,969
Investments	354,178	-	-	354,178	354,178
Total deposits	<u>\$ 607,507</u>	<u>\$ -</u>	<u>\$ 409,432</u>	<u>\$ 1,016,939</u>	<u>\$ 965,205</u>



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**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

Deposits at December 31, 2018, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 25,746	\$ -	\$ 282,364	\$ 308,110	\$ 268,669
Depreciation funds	87,520		48,402	135,922	135,922
Restricted deposits					
Debt service and Depreciation funds	162,480	-	216,038	378,518	378,518
Investments	<u>343,233</u>	<u>-</u>	<u>-</u>	<u>343,233</u>	<u>343,233</u>
Total deposits	<u>\$ 618,979</u>	<u>\$ -</u>	<u>\$ 546,804</u>	<u>\$ 1,165,783</u>	<u>\$ 1,126,342</u>

The District also had \$1,000 and \$1,000 of petty cash on hand for the years ended December 31, 2019 and 2018 respectively.

**Investments**

At December 31, 2019 and 2018, the District's investments included the Federated Treasury Obligations Fund (a money market fund). The investments are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

- Category 1 - Investments that are insured, registered or for which the securities are held by the District or its agent in the District's name.
- Category 2 - Uninsured and unregistered investments for which the securities are held by the bank's trust departments or agents in the District's name.
- Category 3 - Uninsured and unregistered investments for which the securities are held by the banks, or by their trust departments or agents but not in the District's name.

Investments at December 31, 2019 categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	\$354,178	\$ -	\$ -	\$354,178	\$354,178
Total investments	<u>\$354,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$354,178</u>	<u>\$354,178</u>

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DECEMBER 31, 2019 and 2018

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments at December 31, 2018, categorized by level of risk, are:

	Risk Category			Book	Fair
	1	2	3	Value	Value
Treasury MM Fund	<u>\$343,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$343,233</u>	<u>\$343,233</u>
Total investments	<u>\$343,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$343,233</u>	<u>\$343,233</u>

**NOTE 3 - RESTRICTED ASSETS**

The restricted assets in the accompanying financial statements are restricted as to use by ordinance (Note 7), external parties or by board designation. A schedule of restricted assets at December 31, 2019 and 2018 are:

A schedule of restricted assets at December 31, 2019 are:

	Cash	Investments at cost	Total
Debt service and Depreciation funds	\$ 343,969	\$ -	\$ 343,969
Construction funds	-	-	-
Treasury MM fund	<u>-</u>	<u>354,178</u>	<u>354,178</u>
Total restricted assets	<u>\$ 343,969</u>	<u>\$ 354,178</u>	<u>\$ 698,147</u>

A schedule of restricted assets at December 31, 2018 are:

	Cash	Investments at cost	Total
Debt service and Depreciation funds	\$ 378,518	\$ -	\$ 378,518
Construction funds	-	-	-
Treasury MM Fund	<u>-</u>	<u>343,233</u>	<u>343,233</u>
Total restricted assets	<u>\$ 378,518</u>	<u>\$ 343,233</u>	<u>\$ 721,751</u>

McCREARY COUNTY WATER DISTRICT  
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**NOTE 4 - CAPITAL ASSETS**

The following represents the activity for the year ended December 31, 2019:

	Balance 12/31/2018	Additions	Disposals	Transfers	Balance 12/31/2019
Operating fixed assets:					
Land	\$ 430,269	\$ -	\$ -	\$ -	\$ 430,269
Buildings & Improvements	22,435,438	33,865	-	-	22,469,303
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	23,803,982	15,649	-	-	23,819,631
Services/meters	3,674,048	43,419	-	-	3,717,467
Other equipment	9,429,128	13,757	(16,770)	-	9,426,115
	63,022,678	106,690	(16,770)	-	63,112,598
Accumulated depreciation	(24,456,101)	(1,621,786)	16,770	-	(26,061,117)
	38,566,577	(1,515,096)	-	-	37,051,481
Construction in progress	-	701,179	-	-	701,179
Utility plant, net	<u>\$38,566,577</u>	<u>\$ (813,917)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$37,752,660</u>

The following represents the activity for the year ended December 31, 2018:

	Balance 12/31/2017	Additions	Disposals	Transfers	Balance 12/31/2018
Operating fixed assets:					
Land	\$ 260,269	\$ 170,000	\$ -	\$ -	\$ 430,269
Buildings & Improvements	19,929,600	425,919	-	2,079,919	22,435,438
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	23,790,369	13,613	-	-	23,803,982
Services/meters	3,771,764	811,691	(909,407)	-	3,674,048
Other equipment	9,563,666	32,420	(166,958)	-	9,429,128
	60,565,481	1,453,643	(1,076,365)	2,079,919	63,022,678
Accumulated depreciation	(23,741,787)	(1,575,079)	860,765	-	(24,456,101)
	36,823,694	(121,436)	(215,600)	2,079,919	38,566,577
Construction in progress	1,887,007	192,912	-	(2,079,919)	-
Utility plant, net	<u>\$38,710,701</u>	<u>\$ 71,476</u>	<u>\$ (215,600)</u>	<u>\$ -</u>	<u>\$38,566,577</u>

**MCCREARY COUNTY WATER DISTRICT  
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**NOTE 5 - LONG-TERM DEBT**

Outstanding long-term debt consists of revenue bonds collateralized by the revenues of the District. Revenues of the District are to be used first to pay operating and maintenance expenses and second to establish and maintain the revenue bond funds. The District is in compliance with all significant financial requirements as of December 31, 2019.

The District's bonded indebtedness and other long-term debt at December 31, 2019 and 2018, are summarized as follows:

<u>Debt Description</u>	<u>Rate</u>	<u>Original Issue</u>	<u>Principal O/S 2019</u>	<u>Principal O/S 2018</u>
<b>Water District</b>				
United Cumberland	3.900%	\$ 495,000	\$ 495,000	\$ 495,000
BB&T	3.945%	797,355	728,000	797,355
RD Series 2013 D	Variable	1,415,000	860,000	955,000
RD 2013 Series A	1.875%	635,000	578,500	590,500
RD 2005 Series A	4.125%	750,000	617,000	630,000
RD 2008 Series A	4.125%	325,000	280,500	285,800
RD 2008 Series A	4.125%	150,000	129,500	131,900
RD Series 2012 D	Variable	3,205,000	2,600,000	2,700,000
RD Series 2012 D-1	Variable	1,935,000	1,190,000	1,213,000
RD Series 2015	2.500%	1,158,000	1,125,500	1,142,000
KIA CD2-01	1.000% *	1,510,000	505,200	580,057
RD Series 2019	1.375%	1,324,000	517,918	-
<b>Sewer District</b>				
RD 2005 Series A	4.125%	290,000	238,000	243,000
RD Series 2012 D	Variable	1,595,000	1,300,000	1,345,000
		15,584,355	11,165,118	11,108,612
Less current maturities			(969,552)	(461,412)
Total long-term debt			<u>\$10,195,566</u>	<u>\$10,647,200</u>

\* The original issue of the KIA CD2-01 loan is \$1,510,000. As of December 31, 2019, the District had borrowed \$1,474,999 of the original amount.

**McCREARY COUNTY WATER DISTRICT  
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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The District's bonded indebtedness and other long-term debt at December 31, 2019 is detailed as follows:

	Principal Balance 12/31/2018	Borrowings	Principal Payments	Principal Balance 12/31/2019	Current	Long-Term
<b>Water District</b>						
2005 Series A	\$ 630,000	\$ -	\$ 13,000	\$ 617,000	\$ 14,000	\$ 603,000
2008 Series A	285,800	-	5,300	280,500	5,500	275,000
2008 Series A	131,900	-	2,400	129,500	2,500	127,000
2012 Series D	2,700,000	-	100,000	2,600,000	100,000	2,500,000
2012 Series D1	1,213,000	-	23,000	1,190,000	23,500	1,166,500
2013 Series D	590,500	-	12,000	578,500	12,000	566,500
2013 Series A	955,000	-	95,000	860,000	100,000	760,000
2015 Series	1,142,000	-	16,500	1,125,500	17,000	1,108,500
KIA F04-03	580,057	-	74,857	505,200	75,607	429,593
UC Bank	495,000	-	-	495,000	495,000	-
BB&T	797,355	-	69,355	728,000	68,945	659,055
RD Series 2019	-	517,918	-	517,918	-	517,918
<b>Sewer District</b>						
2005 Series A	243,000	-	5,000	238,000	5,500	232,500
2012 Series D	1,345,000	-	45,000	1,300,000	50,000	1,250,000
	<u>\$11,108,612</u>	<u>\$ 517,918</u>	<u>\$ 461,412</u>	<u>\$11,165,118</u>	<u>\$ 969,552</u>	<u>\$10,195,566</u>

The District's bonded indebtedness and other long-term debt at December 31, 2018 is detailed as follows:

	Principal Balance 12/31/2017	Borrowings	Principal Payments	Principal Balance 12/31/2018	Current	Long-Term
<b>Water District</b>						
2005 Series A	642,500	-	12,500	630,000	13,000	617,000
2008 Series A	290,900	-	5,100	285,800	5,300	280,500
2008 Series A	134,200	-	2,300	131,900	2,400	129,500
2012 Series D	2,795,000	-	95,000	2,700,000	100,000	2,600,000
2012 Series D1	1,235,500	-	22,500	1,213,000	23,000	1,190,000
2013 Series D	602,000	-	11,500	590,500	12,000	578,500
2013 Series A	1,050,000	-	95,000	955,000	95,000	860,000
2015 Series	1,158,000	-	16,000	1,142,000	16,500	1,125,500
KIA F04-03	654,171	-	74,114	580,057	74,857	505,200
UC Bank	-	495,000	-	495,000	-	495,000
BB&T	-	797,355	-	797,355	69,355	728,000
<b>Sewer District</b>						
2005 Series A	248,000	-	5,000	243,000	5,000	238,000
2012 Series D	1,390,000	-	45,000	1,345,000	45,000	1,300,000
	<u>\$10,200,271</u>	<u>\$1,292,355</u>	<u>\$ 384,014</u>	<u>\$11,108,612</u>	<u>\$ 461,412</u>	<u>\$10,647,200</u>



MCCREARY COUNTY WATER DISTRICT  
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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The long-term debt service requirements are as follows:

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
2020	\$ 914,052	\$ 55,500	\$ 276,405	\$ 59,004	\$ 1,190,457	\$ 114,504
2021	453,199	55,500	245,911	57,219	699,110	112,719
2022	469,630	56,000	234,063	55,434	703,693	111,434
2023	461,381	61,000	221,906	53,456	683,287	114,456
2024	473,057	61,500	209,518	51,344	682,575	112,844
2025-2029	1,992,881	341,500	850,588	220,625	2,843,469	562,125
2030-2034	1,438,500	405,500	587,809	148,347	2,026,309	553,847
2035-2039	1,379,200	367,500	374,083	63,788	1,753,283	431,288
2040-2044	913,918	134,000	191,872	11,797	1,105,790	145,797
2045-2049	623,800	-	95,176	-	718,976	-
2050-2054	455,000	-	27,794	-	482,794	-
2055	52,500	-	1,312	-	53,812	-
	<u>\$9,627,118</u>	<u>\$1,538,000</u>	<u>\$3,316,437</u>	<u>\$ 721,014</u>	<u>\$12,943,555</u>	<u>\$2,259,014</u>

2005 Series A - McCreary County Water District Waterworks Revenue Bond, dated August 31, 2005, due in annual installments through April 1, 2045, bearing an interest rate of 4.125%.

2008 Series A - McCreary County Water District Waterworks Revenue Bond, dated April 8, 2008, due in annual installments through April 8, 2048 bearing an interest rate of 4.125%

2008 Series A - McCreary County Water District Waterworks Revenue Bond, dated April 8, 2008, due in annual installments through April 8, 2048 bearing an interest rate of 4.125%

2012 Series D - McCreary County Water District Waterworks Revenue Bond, dated May 30, 2012, due in annual installments through January 1, 2040 bearing a variable interest rate.

2012 Series D1 - McCreary County Water District Waterworks Revenue Bond, dated September 30, 2012, due in annual installments through April 1, 2052 bearing a variable interest rate.

2013 Series D - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through October 1, 2052 bearing a variable interest rate.

2013 Series A - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through July 1, 2030 bearing an interest rate of 1.875%.

KIA F04-03 Fund F - As of December 31, 2005 the District had drawn \$1,474,999 on a KIA loan secured by a pledge of revenues. The loan bears an interest rate of 1.00% with a life of twenty years maturing in 2026.

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

2005 Series A - McCreary County Water District Sewer System Revenue Bond, dated August 31, 2005, due in annual installments through January 1, 2045, bearing an interest rate of 4.125%.

2012 Series D - McCreary County Water District Sewer System Revenue Bond, dated May 30, 2012, due in annual installments through February 1, 2041, bearing a variable interest rate.

United Cumberland Bank - Installment loan dated September 28, 2018, due in one annual installment on December 28, 2020, bearing an interest rate of 3.9%.

BB&T Bank - Installment loan dated September 7, 2018, due in annual installments through August 1, 2028, bearing an interest rate of 3.945%

Series 2015 - McCreary County Water District Water System Revenue Bond, dated February 5, 2016, due in annual installments through April 1, 2055, bearing an interest rate of 2.5%.

Series 2019 - McCreary County Water District Water System Revenue Bond, dated September 10, 2019, due in annual installments through April 1, 2060, bearing an interest rate of 1.375%

**NOTE 6 - NET POSITION**

GASB Statement No. 34 (as amended by GASB 63) requires the delineation of Net Position as Invested in Property, Plant and Equipment (capital investments), Restricted and Unrestricted.

The balance of capital investments represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by the District, net of outstanding debt. The balance was \$26,587,542 and \$27,457,965 for the years ended December 31, 2019 and 2018 respectively.

The District has the following restricted net position that is reserved in accordance with the District's various bond ordinances (Note 7):

	<u>2019</u>	<u>2018</u>
Construction	\$ -0-	\$ -0-
Depreciation and		
Debt Service	343,969	378,518
Treasury MM Fund	<u>354,178</u>	<u>343,233</u>
Total Restricted	<u>\$ 698,147</u>	<u>\$ 721,751</u>

The District has a balance of \$(3,005,099) and \$(2,361,404) for unrestricted net position at December 31, 2019 and 2018 respectively.

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**NOTE 7 - COMPLIANCE WITH BOND ORDINANCES**

The District is in compliance with its bond ordinances that require the District to maintain certain reserves and restricted assets as follows:

Bond and Interest Fund - In order to fund the McCreary County Water District and Water Sewer debt, the District makes deposits into these funds to pay for current maturing principal portions and associated interest of bond issues.

Bond Sinking Funds - McCreary County Water District is required by ordinances to transfer funds into various sinking funds for future debt retirement.

Depreciation Fund - The bond resolutions authorizing the bond issues of the water and sewer system require transfers into various depreciation funds to be used for plant acquisitions, extensions and extraordinary repairs and maintenance. Transfers can cease when the fund balance reaches specified levels.

The balance in the depreciation and debt service funds as of December 31, 2019 and 2018 equaled \$343,969 and \$378,518 respectively. The required balance is \$194,280 and \$162,480 respectively.

Construction Funds - The District is required to transfer funds into various funds for the use of funding future projects.

**NOTE 8 - RISK MANAGEMENT**

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

**NOTE 9 - FAIR VALUE MEASUREMENTS**

FASB Statement No. 157, *Fair Value Measurements*, as codified by Accounting Standards Codification (ASC) 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The District uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the District measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or 3 inputs were used by the District.

*Level 1 Fair Value Measurements*

The fair value of the Federated Treasury Obligations Fund (a money market fund) is based on quoted net asset values of the investments held by the District at year-end.

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**NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value:

Assets at Fair Value as of December 31, 2019

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$354,178</u>	-	-	<u>\$354,178</u>
Total assets at fair value	<u>\$354,178</u>	-	-	<u>\$354,178</u>

Assets at Fair Value as of December 31, 2018

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$343,233</u>	-	-	<u>\$343,233</u>
Total assets at fair value	<u>\$343,233</u>	-	-	<u>\$343,233</u>

**NOTE 10 - PENSION PLAN**

McCreary County Water District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute Sections 61.645 and 61.701, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

*Contributions* - For the year ended December 31, 2019, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 and before January 1, 2014 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**NOTE 10 - PENSION PLAN (CONTINUED)**

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended December 31, 2019, the District contributed 16.22% of each employee's covered payroll from January to June, 2019 and 19.30% of each employee's covered payroll from July to December, 2019 to the pension fund, both of which are equal to the actuarially determined rates set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The District contributed for the years ended December 31, 2019 and 2018 \$200,597 and \$167,189, respectively, or 100% of the required contribution to the pension fund.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* - At December 31, 2019 the District reported a liability of \$3,111,418 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled-forward from the valuation date to June 30, 2019 using generally accepted actuarial principles. The District's proportion of the net pension liability was determined using the District's actual contributions for the year ended June 30, 2019. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2019, the District's proportion was 0.044240 percent, which is equal to its proportion measured as of June 30, 2019. For the year ended December 31, 2018, the District's proportion was 0.045494 percent, which is equal to its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized pension expense of \$563,694. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
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NOTE 10 - PENSION PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Effects of changes of assumptions	\$ 314,912	\$ -
District contributions subsequent to the measurement date	109,006	-
Difference between projected and actual earnings on plan investments	-	50,158
Changes in proportion and differences between District contributions and proportionate share of contributions	38,052	43,496
Differences between expected and actual liability experience	79,444	13,146
Total	<u>\$ 541,414</u>	<u>\$ 106,800</u>

The \$109,006 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,		
2020	\$	226,169
2021		71,629
2022		24,252
2023		3,558

*Actuarial Assumptions* - The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles. The Board of Trustees adopted new actuarial assumptions after the June 30, 2018 valuation. The total pension liability as of June 30, 2019 was determined using these updated assumptions. The actuarial assumptions for CERS non-hazardous employees are as follows:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increases	3.30% - 10.30%, varies by service
Investment Rate of Return	6.25%

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
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**NOTE 10 - PENSION PLAN (CONTINUED)**

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

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018. The investment return, price inflation, and payroll growth assumptions were adopted by the Board of Trustees, for use with the June 30, 2019 valuation.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
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%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
<b>Total</b>	<b>100.00%</b>	

*Discount Rate* - The discount rate used to measure the total pension liability was 6.25 percent at June 30, 2019. The projection of cash flows used to determine the discount rate assumes that each fund receives the employer required contributions each future year as determined by the current funding policy established in statute, which includes the phase-in provisions from House Bill 362 (passed in 2018) that applies to the CERS. The discount rate does not use a municipal bond rate.

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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**NOTE 10 - PENSION PLAN (CONTINUED)**

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

	<u>Discount rate</u>	<u>District's proportionate share of net pension liability</u>
1% decrease	5.25%	\$ 3,891,503
Current discount rate	6.25%	\$ 3,111,418
1% increase	7.25%	\$ 2,461,227

*Payable to the Pension Plan* - At December 31, 2019 and 2018, the District reported a payable of \$19,292 and \$15,856, respectively, for the outstanding amount of contributions to the pension plan required for the year then ended. The payable only includes the pension portion of the contribution. Please refer to Note 11 for the amount due to the insurance fund.

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN**

Under the provisions of Kentucky Revised Statutes 61.645 and 61.701, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). McCreary County Water District is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

*Plan Description* - The Kentucky Retirement Systems' (KRS) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Post-employment Benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Membership in the CERS Non-hazardous Insurance Fund consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

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NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Membership Status

Inactive plan members currently receiving benefits:	35,157
Inactive plan members entitled to but not yet receiving benefits:	8,214
Active plan members:	81,470
Total plan members:	<u>124,841</u>

*Actuarial Assumptions* - The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019, were based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles. The Board of Trustees adopted new actuarial assumptions after the June 30, 2018 valuation. The total pension liability as of June 30, 2019 was determined using these updated assumptions. The actuarial assumptions for CERS non-hazardous employees are as follows:

Inflation	2.30%
Payroll Growth Rate	2.00%, CERS non-hazardous
Salary Increase	3.30-10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018. The new actuarial assumptions were adopted by the Board of Trustees, for use with the June 30, 2019 valuation.

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
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**NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)**

*Discount Rate* - The single discount rate of 5.68% for CERS Non-hazardous is based on the long-term expected rate of return on OPEB plan investments of 6.25% and a long-term municipal bond rate of 3.13% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. The projection of cash flows used to determine the discount rate assumes that each fund receives the employer required contributions each future year as determined by the current funding policy established in statute, which includes the phase-in provisions from House Bill 362 (passed in 2018) that applies to the CERS.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
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%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

*Implicit Subsidy* - The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after the measurement date. McCreary County Water District's implicit subsidy for the years ended December 31, 2019 and 2018 was \$15,973 and \$13,030, respectively.

*Contributions* - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)**

For the year ended December 31, 2019, the District contributed 5.26% of each employee's covered payroll from January to June, 2019 and 4.76% of each employee's covered payroll from July to December, 2019 to the insurance fund, both of which are equal to the actuarially determined rates set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Employees hired after September 1, 2008 are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits and the 1% contribution to the 401(h) account is non-refundable.

McCreary County Water District contributed for the years ended December 31, 2019 and 2018, \$56,587 and \$54,241, respectively, or 100% of the required contribution to the insurance fund. For additional information regarding contributions, please refer to Note 10.

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* - At December 31, 2019, the District reported a liability of \$743,912 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018, rolled-forward to June 30, 2019 using generally accepted actuarial principles. The District's proportion of the net OPEB liability was determined using the District's actual contributions for the year ended June 30, 2019. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2019, the District's proportion was 0.044240 percent, which is equal to its proportion measured as of June 30, 2019. For the year ended December 31, 2018, the District's proportion was 0.045494 percent, which is equal to its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized OPEB expense of \$81,291. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Effects of changes of assumptions	\$ 220,129	\$ 1,472
District contributions subsequent to the measurement date (including implicit subsidy)	42,857	-
Differences between projected and actual earnings on plan investments	-	33,042
Differences between expected and actual liability experience	-	224,454
Changes in proportion and differences between District contributions and proportionate share of contributions	17,702	22,508
Total	<u>\$ 280,688</u>	<u>\$ 281,476</u>



MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)**

The \$42,857 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date of \$26,884 and the December 31, 2019 implicit subsidy of \$15,973, will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending December 31,	
2020	\$ (5,836)
2021	(5,836)
2022	4,669
2023	(15,455)
2024	(17,520)
Thereafter	(3,667)

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate* - The following table presents the District's proportionate share of the net OPEB liability calculated using the single discount rate of 5.68 percent, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68 percent) or 1-percentage-point higher (6.68 percent) than the current rate.

	Discount rate	District's proportionate share of net OPEB liability
1% decrease	4.68%	\$ 996,536
Current discount rate	5.68%	\$ 743,912
1% increase	6.68%	\$ 535,766

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following table presents the District's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in *Actuarial Assumptions* above), as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current rates.

	District's proportionate share of net OPEB liability
1% decrease	\$ 553,251
Current healthcare cost trend rate	\$ 743,912
1% increase	\$ 975,111



MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)**

*Payable to the OPEB Plan* - At December 31, 2019 and 2018, the District reported a payable of \$4,758 and \$5,142, respectively, for the outstanding amount of contributions to the insurance plan required for the years then ended. The payable only includes the insurance portion of the contribution. Please refer to Note 10 for the amount due to the pension plan.

**NOTE 12 - SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and the financial markets. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts the District will depend upon future developments, which are highly uncertain and cannot be predicted. As a result, the District has not yet determined the impact this disruption may have on its financial statements for the year ending December 31, 2020.

Subsequent events were evaluated through August 20, 2020, which is the date the financial statements were available to be issued.

**NOTE 13 - RESTATEMENT OF NET POSITION**

During 2018 the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with post-employment benefits other than pensions. Statement No. 75, replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, as amended.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with post-employment benefits other than pensions (OPEB). Under the new standards GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively. This accounting change, results in the following changes to previously-reported amounts:

	<u>2018</u>
Net position, at beginning of year	\$28,207,608
Beginning net OPEB liability and deferred outflows	<u>(714,388)</u>
Net position, at beginning of year, as restated	<u>\$27,493,220</u>

## Supplemental Information

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF NET POSITION  
DECEMBER 31, 2019

	McCreary County			
	Water	Sewer	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 223,489	\$ 44,569	\$	\$ 268,058
Unbilled revenues	211,797	80,810		292,607
Accounts receivable, net	281,357	102,223		383,580
Other receivables	36,673	7,852		44,525
Due from associated division	1,416,013	-	(1,416,013)	-
Inventory	98,789	35,375		134,164
Prepaid expenses	17,556	-		17,556
Total current assets	2,285,674	270,829	(1,416,013)	1,140,490
Non-current assets:				
Restricted cash and cash equivalents	294,773	49,196		343,969
Investments	354,178	-		354,178
Capital assets:				
Utility plant	43,971,527	19,141,071		63,112,598
Less accumulated depreciation	(17,959,737)	(8,101,380)		(26,061,117)
Construction in process	701,179	-		701,179
Total non-current assets	27,361,920	11,088,887		38,450,807
Deferred outflows of resources:				
Deferred outflows - other post-employment benefits	229,041	51,647		280,688
Deferred outflows - pension	441,794	99,620		541,414
Total deferred outflows	670,835	151,267	-	822,102
Total assets and deferred outflows of resources				
	\$ 30,318,429	\$ 11,510,983	\$ (1,416,013)	\$ 40,413,399
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 273,812	\$ 52,533	\$	\$ 326,345
Accrued interest	102,212	29,456		131,668
Due to associated division	-	1,416,013	(1,416,013)	-
Taxes payable	16,100	2,551		18,651
Other accrued liabilities	152,477	41,586		194,063
Implicit subsidy - other post-employment benefits	13,034	2,939		15,973
Customer deposits	37,385	-		37,385
Notes payable - current	563,945	-		563,945
Revenue bonds - current portion	350,107	55,500		405,607
Total current liabilities	1,509,072	1,600,578	(1,416,013)	1,693,637
Non-current liabilities:				
Revenue bonds - net current portion	7,536,093	1,482,500		9,018,593
Notes payable	1,176,973			1,176,973
Net other post-employment benefits liability	607,032	136,880		743,912
Net pension liability	2,538,916	572,502		3,111,418
Total non-current liabilities	11,859,014	2,191,882		14,050,896
Deferred inflows of resources:				
Deferred inflows - other post-employment benefits	229,684	51,792		281,476
Deferred inflows - pension	87,149	19,651		106,800
Total deferred inflows	316,833	71,443	-	388,276
Total liabilities and deferred inflows of resources				
	\$ 13,684,919	\$ 3,863,903	\$ (1,416,013)	\$ 16,132,809
NET POSITION				
Invested in capital assets, net of related debt	\$ 17,085,851	\$ 9,501,691		\$ 26,587,542
Restricted for debt service and construction	648,951	49,196		698,147
Unrestricted	(1,101,292)	(1,903,807)	-	(3,005,099)
Total net position	16,633,510	7,647,080	-	24,280,590
Total liabilities, deferred inflows of resources and net position				
	\$ 30,318,429	\$ 11,510,983	\$ (1,416,013)	\$ 40,413,399

See Independent Auditor's Report.

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2019

	McCreary County		
	Water	Sewer	Total
<b>Operating revenues</b>			
Residential sales	\$ 2,308,122	\$ 343,035	\$ 2,651,157
Commercial sales	247,148	172,930	420,078
Industrial sales	5,964	5,294	11,258
Governmental sales	697,600	536,377	1,233,977
Other sales and fees	95,264	48,098	143,362
Total operating revenues	<u>3,354,098</u>	<u>1,105,734</u>	<u>4,459,832</u>
<b>Operating expenses</b>			
General and administrative costs	180,568	23,036	203,604
Payroll and contractual services	1,922,464	747,117	2,669,581
Repairs and maintenance	-	195,657	195,657
Other supplies and expenses	881,841	328,401	1,210,242
Depreciation	1,089,345	532,441	1,621,786
Total operating expenses	<u>4,074,218</u>	<u>1,826,652</u>	<u>5,900,870</u>
Operating loss	<u>(720,120)</u>	<u>(720,918)</u>	<u>(1,441,038)</u>
<b>Nonoperating revenues (expenses)</b>			
Interest income	12,557	819	13,376
Other income	203,118	-	203,118
Gain (loss) on disposal of fixed assets	-	4,200	4,200
Interest expense	(292,321)	(58,911)	(351,232)
Total nonoperating revenues	<u>(76,646)</u>	<u>(53,892)</u>	<u>(130,538)</u>
Loss before contributions	<u>(796,766)</u>	<u>(774,810)</u>	<u>(1,571,576)</u>
Capital grants received	<u>33,854</u>	<u>-</u>	<u>33,854</u>
Change in net position	<u>(762,912)</u>	<u>(774,810)</u>	<u>(1,537,722)</u>
Total net position on December 31, 2018	<u>17,396,422</u>	<u>8,421,890</u>	<u>25,818,312</u>
Total net position on December 31, 2019	<u>\$ 16,633,510</u>	<u>\$ 7,647,080</u>	<u>\$ 24,280,590</u>

See Independent Auditor's Report

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF CASH FLOWS  
DECEMBER 31, 2019

	Water	Sewer	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 3,287,950	\$ 1,062,761	\$ 4,350,711
Operating expenses:			
General and administrative	(180,568)	(23,036)	(203,604)
Payroll and related expenses	(1,766,994)	(527,726)	(2,294,720)
Repairs and maintenance	-	(195,657)	(195,657)
Other supplies and expenses	(792,801)	(178,514)	(971,315)
Net cash provided by operating activities	<u>547,587</u>	<u>137,828</u>	<u>685,415</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(805,664)	(2,205)	(807,869)
Proceeds from sale of capital assets	4,200	-	4,200
Principal paid on debt	(416,912)	(44,500)	(461,412)
Proceeds from debt borrowings	517,918	-	517,918
Interest paid on debt	(290,846)	(58,911)	(349,757)
Capital contributions	33,854	-	33,854
Net cash used in capital and related financing activities	<u>(957,450)</u>	<u>(105,616)</u>	<u>(1,063,066)</u>
<b>Cash Flows from Investing Activities</b>			
Interest income from investments	12,577	819	13,396
Other cash receipts	203,118	-	203,118
Net cash provided by investing activities	<u>215,695</u>	<u>819</u>	<u>216,514</u>
 Net (decrease) increase in cash and cash equivalents	 (194,168)	 33,031	 (161,137)
Cash and cash equivalents, at beginning of year	1,066,608	60,734	1,127,342
Cash and cash equivalents, at end of year	<u>\$ 872,440</u>	<u>\$ 93,765</u>	<u>\$ 966,205</u>
 Unrestricted cash and cash equivalents	 \$ 223,489	 \$ 44,569	 \$ 268,058
Restricted cash and cash equivalents	<u>648,951</u>	<u>49,196</u>	<u>698,147</u>
Total cash and cash equivalents, at end of year	<u>\$ 872,440</u>	<u>\$ 93,765</u>	<u>\$ 966,205</u>

See Independent Auditor's Report.

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)  
DECEMBER 31, 2019

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (720,120)	\$ (720,918)	\$ (1,441,038)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	1,089,345	532,441	1,621,786
Change in assets and liabilities:			
Increase in receivables	(66,148)	(42,973)	(109,121)
Decrease in inventories	9,414	5,655	15,069
Increase in prepaids	5,088	-	5,088
Decrease in accounts payable	152,547	17,350	169,897
Increase in customer deposits	2,150	-	2,150
Increase in accrued liabilities	20,916	25,807	46,723
(Decrease) increase in net OPEB obligation	(31,141)	42,911	11,770
Increase in net pension obligation	186,611	176,480	363,091
Net cash provided by operating activities	<u>\$ 648,662</u>	<u>\$ 36,753</u>	<u>\$ 685,415</u>

See Independent Auditor's Report.

McCreary County Water District  
Schedule of Proportionate Share of the Net Pension Liability  
As of and for the Year Ended December 31, 2019

	2019	2018	2017
District's proportion of the net pension liability	0.044240%	0.045494%	0.043724%
District's proportionate share of the net pension liability	\$ 3,111,418	\$ 2,770,845	\$ 2,559,300
District's covered employee payroll	\$ 1,115,926	\$ 1,127,618	\$ 1,064,570
District's share of the net pension liability as a percentage of its covered employee payroll	278.82%	245.73%	240.41%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.32%
	2016	2015	2014
District's proportion of the net pension liability	0.043507%	0.040430%	0.042430%
District's proportionate share of the net pension liability	\$ 2,142,121	\$ 1,738,371	\$ 1,376,595
District's covered employee payroll	\$ 1,024,456	\$ 949,859	\$ 973,416
District's share of the net pension liability as a percentage of its covered employee payroll	209.10%	183.01%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

The amounts presented for each fiscal year were determined (measured) as of June 30, of the fiscal year presented.



McCreary County Water District  
Schedule of Pension Contributions  
As of and for the Year Ended December 31, 2019

	2019	2018	2017
Contractually required employer contributions	\$ 200,597	\$ 167,189	\$ 160,610
Contributions relative to contractually required employer contributions	200,597	167,189	160,610
Contribution excess (deficiency)	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 1,129,480	\$ 1,088,383	\$ 1,128,886
Employer contributions as a percentage of covered-employee payroll	17.76%	15.36%	14.23%
	2016	2015	2014
Contractually required employer contributions	\$ 134,208	\$ 126,892	\$ 127,882
Contributions relative to contractually required employer contributions	134,208	126,892	127,882
Contribution excess (deficiency)	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 1,015,760	\$ 1,009,246	\$ 965,456
Employer contributions as a percentage of covered-employee payroll	13.21%	12.57%	13.25%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Contractually required employer contributions exclude the portion of contributions paid to the CERS, but allocated to the insurance fund of the CERS.

The above contributions only include those contributions allocated directly to the CERS pension fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year end of the District.

McCreary County Water District  
Schedule of Proportionate Share of the Net OPEB Liability  
As of and for the Year Ended December 31, 2019

	2019	2018	2017
District's proportion of the net OPEB liability	0.044229%	0.045494%	0.043724%
District's proportionate share of the net OPEB liability	\$ 743,912	\$ 807,737	\$ 879,002
District's covered employee payroll	\$ 1,115,926	\$ 1,127,618	\$ 1,064,570
District's share of the net OPEB liability as a percentage of its covered employee payroll	66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.39%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

The amounts presented for each fiscal year were determined (measured) as of June 30, of the year presented.

McCreary County Water District  
Schedule of OPEB Contributions  
As of and for the Year Ended December 31, 2019

	2019	2018	2017
Contractually required employer contributions	\$ 56,587	\$ 54,241	\$ 53,219
Contributions relative to contractually required employer contributions	<u>56,587</u>	<u>54,241</u>	<u>53,219</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,129,480	\$ 1,088,383	\$ 1,128,886
Employer contributions as a percentage of covered-employee payroll	5.01%	4.98%	4.71%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Contractually required employer contributions exclude the portion of contributions paid to the CERS, but allocated to the pension fund of the CERS.

The above contributions only include those contributions allocated directly to the CERS insurance fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year end of the District.

McCreary County Water District  
Schedule of Changes in Benefits and Assumptions  
As of and for the Year Ended December 31, 2019

County Employee Retirement System

*Changes of benefit terms*

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty.

- Pension - Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.
- Insurance - The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

*Changes in assumptions*

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The rate of inflation, payroll growth rate, salary increases, and investment rate of return assumptions remain the same as those adopted for the June 30, 2017 valuation.
- The salary increase assumption was increased from an average of 3.05% to a range that varies by service of 3.30% - 10.30%.
- The healthcare trend rates used were updated to the following:

Pre-65 - Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.

Post-65 - Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

- The mortality tables used were updated to the following:

Active members - PUB 2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Healthy retired members - System specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

Disabled retired members - PUB 2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality scale using a base year of 2010.

McCreary County Water District  
Schedule of Changes in Benefits and Assumptions (continued)  
As of and for the Year Ended December 31, 2019

County Employee Retirement System

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The payroll growth assumption was reduced from 4.00% to 2.00%.
- The salary increase assumption was reduced from 4.00% average to 3.05% average.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to 0.75%.
- The payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.



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

Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities of the McCreary County Water District, Water and Sewer Divisions (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated August 20, 2020.

**Internal Control Over Financial Reporting**

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

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

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

Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
Page 2

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

#### **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.

***Faulkner, King & Wenz, PSC***

August 20, 2020