

McCreary County Water District
Water and Sewer Divisions

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Independent Auditor's Report
and Combined Financial Statements
December 31, 2020 and 2019

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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**MCCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

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, 2020 and 2019. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ended December 31, 2020, total operating and non-operating revenues (including capital contributions) totaled \$5,744,877 and operating expenses and non-operating expenses amounted to \$6,165,585, creating a decrease in net position of \$420,708. At year end, net position totaled \$23,859,882 of which \$25,930,223 (net of related debt) was invested in capital assets, and \$762,719 was restricted for debt service and construction. This left a net amount of \$(2,833,060) of unrestricted net position.

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.

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, 2020 AND 2019**

Condensed Comparative Financial Analysis:

McCreary County Water District
Water and Sewer Divisions
Statements of Net Position-Summary
December 31, 2020 and 2019

Assets	<u>2020</u>	<u>2019</u>
Total Current Assets	\$ 1,427,483	\$ 1,140,490
Total Restricted Assets	762,719	698,147
Net Capital Assets	<u>37,529,370</u>	<u>37,752,660</u>
Total Assets	<u>\$ 39,719,572</u>	<u>\$ 39,591,297</u>
Deferred Outflows of Resources	<u>853,226</u>	<u>822,102</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 40,572,798</u>	<u>\$ 40,413,399</u>
Liabilities		
Total Current Liabilities	\$ 1,028,772	\$ 1,693,637
Total Non-current Liabilities	<u>15,332,354</u>	<u>14,050,896</u>
Total Liabilities	<u>\$ 16,361,126</u>	<u>\$ 15,744,533</u>
Deferred Inflows of Resources	<u>\$ 351,790</u>	<u>\$ 388,276</u>
Net Position:		
Invested in capital assets, net of related debt	\$ 25,930,223	\$ 26,587,542
Restricted for debt service and construction	762,719	698,147
Unrestricted	<u>(2,833,060)</u>	<u>(3,005,099)</u>
Total Net Position	<u>\$ 23,859,882</u>	<u>\$ 24,280,590</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 40,572,798</u>	<u>\$ 40,413,399</u>

The largest portion per year (108.68% and 109.50% 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 (3.20% and 2.87% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (-11.88% and -12.37% 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, 2020 AND 2019**

McCreary County Water District
Water and Sewer Divisions
Statements of Operations
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Total operating revenues	\$ 5,131,605	\$ 4,459,832
Total operating expenses	<u>5,849,876</u>	<u>5,900,870</u>
Operating loss	(718,271)	(1,441,038)
Net non-operating expenses	<u>(194,958)</u>	<u>(130,538)</u>
Loss before capital contributions	(913,229)	(1,571,576)
Capital contributions	<u>492,521</u>	<u>33,854</u>
Change in net position	(420,708)	(1,537,722)
Beginning of year	<u>24,280,590</u>	<u>25,818,312</u>
End of year	<u>\$ 23,859,882</u>	<u>\$ 24,280,590</u>

During 2020, net position decreased by \$420,708 and consisted of an operating loss of (\$718,271), net non-operating revenue and expenses of (\$194,958) and capital contributions of \$492,521.

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.

Capital Asset Changes

At December 31, 2020, the Utility had invested \$37,529,370 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$223,290 from the previous year. The net decrease consisted of additions to capital assets of \$1,402,621 less depreciation expense of \$1,625,911. The additions were mainly financed with proceeds of debt borrowings.

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.

Debt Administration

At December 31, 2020, the utility had total debt equal to \$11,599,147 which consisted of \$10,875,093 of bonds outstanding, \$724,054 of notes payable, and capital leases of \$0. At the beginning of the year total debt equaled \$11,165,118. The increase in debt of \$434,029 was due to additions to debt of \$3,159,000 less scheduled principal payments of \$2,724,971.

**MCCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

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.

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 collective amounts for all the governments in the plan; therefore, included in long term liabilities is a net pension liability of \$3,202,344 for 2020, and \$3,111,418 for 2019.

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 \$1,007,893 for 2020 and \$743,912 for 2019.

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.

FAULKNER, KING & WENZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH C. KING, CPA
JOHN M. WENZ, CPA
KEVIN M. ROMENESKO, CPA
KAREN S. TRENT, CPA
EUGENE C. WEATHERS III, CPA

P.O. BOX 285
117 WEST HIGH STREET
MT. STERLING, KY 40353
(859) 498-1836 FAX (859) 498-2116

ERICA M. SNOWDEN, CPA
JENNIFER T. COLLINGWOOD, CPA
LESLIE J. BUTCHER
SARAH R. FOSTER

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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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

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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, 2020 and 2019 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.

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 43 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

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Water and Sewer Divisions
Whitley City, Kentucky 42653
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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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basis financial statements.

The combining statements and the schedule of expenditures of federal awards 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 and the schedule of expenditures of federal awards 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 July 26, 2021, 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

July 26, 2021

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF NET POSITION
DECEMBER 31, 2020 and 2019**

ASSETS

	2020	2019
Current assets:		
Cash and cash equivalents	\$ 329,956	\$ 268,058
Unbilled revenues	327,260	292,607
Accounts receivable	550,858	383,580
Other receivables	53,678	44,525
Inventory	164,599	134,164
Prepaid expenses	1,132	17,556
Total current assets	<u>1,427,483</u>	<u>1,140,490</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	380,833	343,969
Investments	381,886	354,178
Capital assets:		
Utility plant	63,361,437	63,112,598
Less accumulated depreciation	(27,687,028)	(26,061,117)
Construction in process	1,854,961	701,179
Total non-current assets	<u>38,292,089</u>	<u>38,450,807</u>
Deferred Outflows of Resources:		
Deferred outflows - OPEB	443,463	280,688
Deferred outflows - pension	409,763	541,414
Total deferred outflows	<u>853,226</u>	<u>822,102</u>
 Total assets and deferred outflows of resources	 <u>\$ 40,572,798</u>	 <u>\$ 40,413,399</u>

LIABILITIES

Current liabilities:		
Accounts payable	\$ 166,527	\$ 326,345
Accrued interest	123,281	131,668
Taxes payable	24,440	18,651
Other accrued liabilities	197,983	210,036
Customer deposits	39,511	37,385
Notes payable - current	71,665	563,945
Revenue bonds - current portion	405,365	405,607
Total current liabilities	<u>1,028,772</u>	<u>1,693,637</u>
Non-current liabilities:		
Revenue bonds - net current portion	10,469,728	9,018,593
Notes payable	652,389	1,176,973
Net OPEB liability	1,007,893	743,912
Net pension liability	3,202,344	3,111,418
Total non-current liabilities	<u>15,332,354</u>	<u>14,050,896</u>
Total liabilities	<u>16,361,126</u>	<u>15,744,533</u>
Deferred Inflows of Resources		
Deferred inflows - OPEB	225,244	281,476
Deferred inflows - pension	126,546	106,800
Total deferred inflows	<u>351,790</u>	<u>388,276</u>

NET POSITION

Invested in capital assets, net of related debt	25,930,223	26,587,542
Restricted for debt service and construction	762,719	698,147
Unrestricted	(2,833,060)	(3,005,099)
Total net position	<u>23,859,882</u>	<u>24,280,590</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 40,572,798</u>	 <u>\$ 40,413,399</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Residential sales	\$ 2,884,899	\$ 2,651,157
Commercial sales	450,965	420,078
Industrial sales	100,777	11,258
Governmental sales	1,492,531	1,233,977
Other sales	<u>202,433</u>	<u>143,362</u>
Total operating revenues	<u>5,131,605</u>	<u>4,459,832</u>
Operating expenses		
General and administrative costs	379,685	203,604
Payroll and related expenses	2,483,862	2,669,581
Repairs and maintenance	251,626	195,657
Other supplies and expenses	1,108,792	1,210,242
Depreciation and amortization	<u>1,625,911</u>	<u>1,621,786</u>
Total operating expenses	<u>5,849,876</u>	<u>5,900,870</u>
Operating loss	<u>(718,271)</u>	<u>(1,441,038)</u>
Nonoperating revenues (expenses)		
Interest income	11,982	13,376
Other income	108,769	203,118
Gain on sale of fixed assets	-	4,200
Interest expense	<u>(315,709)</u>	<u>(351,232)</u>
Net nonoperating expenses	<u>(194,958)</u>	<u>(130,538)</u>
Loss before contributions	(913,229)	(1,571,576)
Capital grants received	<u>492,521</u>	<u>33,854</u>
Change in net position	(420,708)	(1,537,722)
Total net position beginning of year	<u>24,280,590</u>	<u>25,818,312</u>
Total net position end of year	<u>\$ 23,859,882</u>	<u>\$ 24,280,590</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, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities		
Cash received from customers	\$ 4,920,521	\$ 4,350,711
Operating expenses:		
General and administrative	(379,685)	(203,604)
Payroll and related expenses	(2,196,565)	(2,294,720)
Repairs and maintenance	(251,626)	(195,657)
Other supplies and expenses	(1,286,759)	(971,315)
Net cash provided by operating activities	<u>805,886</u>	<u>685,415</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,402,621)	(807,869)
Proceeds from sale of capital assets	-	4,200
Principal paid on debt	(2,724,971)	(461,412)
Proceeds from debt borrowings	3,159,000	517,918
Interest paid on debt	(324,096)	(349,757)
Capital contributions	492,521	33,854
Net cash used in capital and related financing activities	<u>(800,167)</u>	<u>(1,063,066)</u>
Cash Flows from Investing Activities		
Interest income from investments	11,982	13,396
Other cash receipts	108,769	203,118
Net cash provided by investing activities	<u>120,751</u>	<u>216,514</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	126,470	(161,137)
Cash, cash equivalents, and restricted cash at beginning of year	<u>966,205</u>	<u>1,127,342</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,092,675</u>	<u>\$ 966,205</u>
Unrestricted cash and cash equivalents	\$ 329,956	\$ 268,058
Restricted cash and cash equivalents	<u>762,719</u>	<u>698,147</u>
Total cash and cash equivalents, at end of year	<u>\$ 1,092,675</u>	<u>\$ 966,205</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 (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (718,271)	\$ (1,441,038)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,625,911	1,621,786
Bad debt expense	66,160	-
Change in assets and liabilities:		
Increase in receivables	(277,244)	(109,121)
(Increase) decrease in inventories	(30,435)	15,069
Decrease in prepaids	16,424	5,088
(Decrease) increase in accounts payable	(159,818)	169,897
Increase in customer deposits	2,126	2,150
(Decrease) increase in accrued expenses	(6,264)	46,723
Increase in net OPEB obligation	44,974	11,770
Increase in net pension obligation	<u>242,323</u>	<u>363,091</u>
Net cash provided by operating activities	<u>\$ 805,886</u>	<u>\$ 685,415</u>

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

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, 2020 and 2019

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
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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 \$284,960 and \$218,800 for the years ended December 31, 2020 and 2019 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 \$492,521 and \$33,854 in grants for the years ended December 31, 2020 and 2019 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 \$1,625,911 and \$1,621,786 for the years ended December 31, 2020 and 2019 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.

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

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." This 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 \$1,091,675 and \$965,205 for the years ended December 31, 2020 and 2019 respectively and the respective bank balances totaled \$1,222,975 and \$1,016,939 respectively for the years then ended. The bank balances are covered by \$635,215 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, 2020, categorized by level of risk, are:

	Risk Category			Bank	Book
	1	2	3	Balance	Value
Unrestricted deposits					
Operating accounts	\$ 151,879	\$ -	\$ 308,377	\$ 460,256	\$ 328,956
Depreciation funds	-		-	-	-
Restricted deposits					
Debt service and					
Depreciation funds	101,450	-	279,383	380,833	380,833
Investments	381,886	-	-	381,886	381,886
Total deposits	<u>\$ 635,215</u>	<u>\$ -</u>	<u>\$ 587,760</u>	<u>\$ 1,222,975</u>	<u>\$ 1,091,675</u>

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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

	Risk Category			Bank Balance	Book Value
	1	2	3		
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	<u>354,178</u>	<u>-</u>	<u>-</u>	<u>354,178</u>	<u>354,178</u>
Total deposits	<u>\$ 607,507</u>	<u>\$ -</u>	<u>\$ 409,432</u>	<u>\$ 1,016,939</u>	<u>\$ 965,205</u>

The District also had \$1,000 and \$1,000 of petty cash on hand for the years ended December 31, 2020 and 2019 respectively.

Investments

At December 31, 2020 and 2019, 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, 2020 categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	<u>\$381,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$381,886</u>	<u>\$381,886</u>
Total investments	<u>\$381,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$381,886</u>	<u>\$381,886</u>

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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

	Risk Category			Book	Fair
	1	2	3	Value	Value
Treasury MM Fund	<u>\$354,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$354,178</u>	<u>\$354,178</u>
Total investments	<u>\$354,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$354,178</u>	<u>\$354,178</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, 2020 and 2019 are:

A schedule of restricted assets at December 31, 2020 are:

	Cash	Investments at cost	Total
Debt service and Depreciation funds	\$ 380,833	\$ -	\$ 380,833
Construction funds	-	-	-
Treasury MM fund	-	381,886	381,886
Total restricted assets	<u>\$ 380,833</u>	<u>\$ 381,886</u>	<u>\$ 762,719</u>

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	-	354,178	354,178
Total restricted assets	<u>\$ 343,969</u>	<u>\$ 354,178</u>	<u>\$ 698,147</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

NOTE 4 - CAPITAL ASSETS

The following represents the activity for the year ended December 31, 2020:

	Balance 12/31/2019	Additions	Disposals	Transfers	Balance 12/31/2020
Operating fixed assets:					
Land	\$ 430,269	\$ -	\$ -	\$ -	\$ 430,269
Buildings & Improvements	22,469,303	-	-	-	22,469,303
Treatment equipment	3,249,813	96,460	-	-	3,346,273
Distributions	23,819,631	99,538	-	-	23,919,169
Services/meters	3,717,467	50,489	-	-	3,767,956
Other equipment	<u>9,426,115</u>	<u>2,352</u>	<u>-</u>	<u>-</u>	<u>9,428,467</u>
	63,112,598	248,839	-	-	63,361,437
Accumulated depreciation	<u>(26,061,117)</u>	<u>(1,625,911)</u>	<u>-</u>	<u>-</u>	<u>(27,687,028)</u>
	37,051,481	(1,377,072)	-	-	35,674,409
Construction in progress	<u>701,179</u>	<u>1,153,782</u>	<u>-</u>	<u>-</u>	<u>1,854,961</u>
Utility plant, net	<u>\$37,752,660</u>	<u>\$ (223,290)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$37,529,370</u>

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	<u>9,429,128</u>	<u>13,757</u>	<u>(16,770)</u>	<u>-</u>	<u>9,426,115</u>
	63,022,678	106,690	(16,770)	-	63,112,598
Accumulated depreciation	<u>(24,456,101)</u>	<u>(1,621,786)</u>	<u>16,770</u>	<u>-</u>	<u>(26,061,117)</u>
	38,566,577	(1,515,096)	-	-	37,051,481
Construction in progress	<u>-</u>	<u>701,179</u>	<u>-</u>	<u>-</u>	<u>701,179</u>
Utility plant, net	<u>\$38,566,577</u>	<u>\$ (813,917)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$37,752,660</u>

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

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, 2020.

The District's bonded indebtedness and other long-term debt at December 31, 2020 and 2019, are summarized as follows:

<u>Debt Description</u>	<u>Rate</u>	<u>Original Issue</u>	<u>Principal O/S 2020</u>	<u>Principal O/S 2019</u>
Water District				
United Cumberland	3.900%	\$ 495,000	\$ -	\$ 495,000
BB&T	3.945%	797,355	659,054	728,000
RD Series 2013 D	Variable	1,415,000	760,000	860,000
RD 2013 Series A	1.875%	635,000	566,500	578,500
RD 2005 Series A	4.125%	750,000	-	617,000
RD 2008 Series A	4.125%	325,000	-	280,500
RD 2008 Series A	4.125%	150,000	-	129,500
RD Series 2012 D	Variable	3,205,000	2,500,000	2,600,000
RD Series 2012 D-1	Variable	1,935,000	1,166,500	1,190,000
RD Series 2015	2.500%	1,158,000	1,108,500	1,125,500
RD Series 2020E	Variable	1,535,306	1,535,306	-
RD Series 2020	1.375%	1,324,000	1,324,000	-
KIA CD2-01	1.000%	* 1,510,000	429,593	505,200
RD Series 2019	1.375%	1,324,000	-	517,918
Sewer District				
RD 2005 Series A	4.125%	290,000	-	238,000
RD Series 2020E	Variable	234,694	234,694	-
United Cumberland	3.16%	65,000	65,000	-
RD Series 2012 D	Variable	1,595,000	1,250,000	1,300,000
		15,584,355	11,599,147	11,165,118
Less current maturities			(477,030)	(969,552)
Total long-term debt			<u>\$11,122,117</u>	<u>\$10,195,566</u>

* The original issue of the KIA CD2-01 loan is \$1,510,000. As of December 31, 2020, the District had borrowed \$1,474,999 of the original amount.

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The District's bonded indebtedness and other long-term debt at December 31, 2020 is detailed as follows:

	Principal Balance 12/31/2019	Borrowings	Principal Payments	Principal Balance 12/31/2020	Current	Long-Term
Water District						
2005 Series A	\$ 617,000	\$ -	\$ 617,000	\$ -	\$ -	\$ -
2008 Series A	280,500	-	280,500	-	-	-
2008 Series A	129,500	-	129,500	-	-	-
2012 Series D	2,600,000	-	100,000	2,500,000	105,000	2,395,000
2012 Series D1	1,190,000	-	23,500	1,166,500	24,000	1,142,500
2013 Series D	578,500	-	12,000	566,500	12,500	554,000
2013 Series A	860,000	-	100,000	760,000	100,000	660,000
2015 Series	1,125,500	-	17,000	1,108,500	17,500	1,091,000
KIA F04-03	505,200	-	75,607	429,593	76,365	353,228
UC Bank	495,000	-	495,000	-	-	-
BB&T	728,000	-	68,946	659,054	71,665	587,389
RD Series 2019	517,918	-	517,918	-	-	-
RD Series 2020	-	1,535,306	-	1,535,306	-	1,535,306
RD Series 2020	-	1,324,000	-	1,324,000	20,000	1,304,000
Sewer District						
2005 Series A	238,000	-	238,000	-	-	-
Series 2020E	-	234,694	-	234,694	-	234,694
UC Bank	-	65,000	-	65,000	-	65,000
2012 Series D	1,300,000	-	50,000	1,250,000	50,000	1,200,000
	<u>\$11,165,118</u>	<u>\$ 3,159,000</u>	<u>\$2,724,971</u>	<u>\$11,599,147</u>	<u>\$ 477,030</u>	<u>\$11,122,117</u>

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

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
Water District						
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
Sewer District						
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 long-term debt service requirements are as follows:

Year	Principal		Interest		Total	
	Water	Sewer	Water	Sewer	Water	Sewer
2021	\$ 427,030	\$ 50,000	\$ 255,088	\$ 51,519	\$ 682,118	\$ 101,519
2022	488,879	69,877	245,590	50,178	734,469	120,055
2023	484,630	74,876	236,916	49,363	721,546	124,239
2024	495,006	74,876	223,899	47,304	718,905	122,180
2025	513,677	74,876	210,339	45,199	724,016	120,075
2026-2030	1,914,073	375,347	856,635	188,875	2,770,708	564,222
2031-2035	1,480,366	415,634	605,966	117,325	2,086,332	532,959
2036-2040	1,488,345	322,156	392,604	40,898	1,880,949	363,054
2041-2045	1,012,329	83,673	230,475	6,868	1,242,804	90,541
2046-2050	898,618	8,379	123,750	705	1,022,368	9,084
2051-2055	605,500	-	43,125	-	648,625	-
2056-2060	241,000	-	8,443	-	249,443	-
	<u>\$10,049,453</u>	<u>\$1,549,694</u>	<u>\$3,432,830</u>	<u>\$ 598,234</u>	<u>\$13,482,283</u>	<u>\$2,147,928</u>

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE 5 - LONG-TERM DEBT (CONTINUED)

2020 Series E - McCreary County Water and Sewer District Waterworks Revenue Bond, dated September 23, 2020, due in annual installments through February 1, 2050, bearing a variable interest rate.

2020 Series A - McCreary County Water District Waterworks Revenue Bond, dated April 1, 2020, due in annual installments through April 1, 2060 bearing an interest rate of 1.375%

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.

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 July 20, 2020, due in annual installments through January 26, 2026, bearing an interest rate of 3.16%.

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%.

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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 \$25,930,223 and \$26,587,542 for the years ended December 31, 2020 and 2019 respectively.

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

	<u>2020</u>	<u>2019</u>
Construction	\$ -0-	\$ -0-
Depreciation and		
Debt Service	380,833	343,969
Treasury MM Fund	<u>381,886</u>	<u>354,178</u>
Total Restricted	<u>\$ 762,719</u>	<u>\$ 698,147</u>

The District has a balance of \$(2,833,060) and \$(3,005,099) for unrestricted net position at December 31, 2020 and 2019 respectively.

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, 2020 and 2019 equaled \$380,833 and \$343,969 respectively. The required balance is \$124,040 and \$194,280 respectively.

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

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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.

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, 2020

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$381,886</u>	-	-	<u>\$381,886</u>
Total assets at fair value	<u>\$381,886</u>	-	-	<u>\$381,886</u>

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>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

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, 2020, 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.

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, 2020, the District contributed 19.30% of each employee's covered payroll to the pension fund, which is equal to the actuarially determined rate 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, 2020 and 2019 \$211,472 and \$200,597, respectively, or 100% of the required contribution to the pension fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - As of December 31, 2020 the District reported a liability of \$3,202,344 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, rolled-forward from the valuation date to June 30, 2020 using generally accepted actuarial principles.

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

NOTE 10 - PENSION PLAN (CONTINUED)

The District's proportion of the net pension liability was determined using the District's actual contributions for the year ended June 30, 2020. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2020, the District's proportion was 0.041752 percent, which is equal to its proportion measured as of June 30, 2020. 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, 2020, the District recognized pension expense of \$452,987. As of December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Effects of changes of assumptions	\$ 125,046	\$ -
District contributions subsequent to the measurement date	113,266	-
Difference between projected and actual earnings on plan investments	80,135	-
Changes in proportion and differences between District contributions and proportionate share of contributions	11,460	126,546
Differences between expected and actual liability experience	79,856	-
	<hr/>	<hr/>
Total	<u>\$ 409,763</u>	<u>\$ 126,546</u>

The \$113,266 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, 2021. 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,		
	2021	\$ 75,180
	2022	30,436
	2023	32,150
	2024	32,185

Actuarial Assumptions - The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. The Board of Trustees adopted new actuarial assumptions since June 30, 2018. The total pension liability as of June 30, 2020, was determined using these updated assumptions.

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE 10 - PENSION PLAN (CONTINUED)

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses occurring in future years will be amortized over separate 20-year amortization periods. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

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%

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, 2020 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty		
Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

NOTE 10 - PENSION PLAN (CONTINUED)

Discount Rate - The discount rate used to measure the total pension liability was 6.25 percent as of June 30, 2020. 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.

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%	\$ 3,949,187
Current discount rate	6.25%	\$ 3,202,344
1% increase	7.25%	\$ 2,583,929

Payable to the Pension Plan - As of December 31, 2020 and 2019, the District reported a payable of \$26,864 and \$19,292, 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

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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

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 as of June 30, 2019, the date of the latest actuarial valuation:

Membership Status

Inactive plan members currently receiving benefits:	36,371
Inactive plan members entitled to but not yet receiving benefits:	29,362
Active plan members:	<u>81,147</u>
Total plan members:	<u>146,880</u>

Actuarial Assumptions - The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. The Board of Trustees adopted new actuarial assumptions since June 30, 2018. The total pension liability as of June 30, 2020 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 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post - 65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 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.

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019**

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

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, 2020 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

Discount Rate - The single discount rate of 5.34% 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 2.45% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. The projection of cash flows used to determine the discount rate must include an assumption regarding future employer contributions made each year. The future contributions are projected in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 legislative session.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty		
Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
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, 2020 and 2019 was \$24,736 and \$15,973, 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.

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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

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.

For the year ended December 31, 2020, the District contributed 4.76% of each employee's covered payroll to the insurance fund, which is equal to the actuarially determined rate 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, 2020 and 2019, \$52,156 and \$56,587, 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 - As of December 31, 2020, the District reported a liability of \$1,007,893 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019, rolled-forward to June 30, 2020, 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, 2020. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2020, the District's proportion was 0.041740 percent, which is equal to its proportion measured as of June 30, 2020. For the year ended December 31, 2019, the District's proportion was 0.044229 percent, which is equal to its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the District recognized OPEB expense of \$60,516. As of December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Effects of changes of assumptions	\$ 175,314	\$ 1,066
District contributions subsequent to the measurement date (including implicit subsidy)	52,671	-
Differences between projected and actual earnings on plan investments	33,500	-
Differences between expected and actual liability experience	168,398	168,529
Changes in proportion and differences between District contributions and proportionate share of contributions	13,580	55,649
Total	<u>\$ 443,463</u>	<u>\$ 225,244</u>

The \$52,671 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date of \$27,935 and the December 31, 2020 implicit subsidy of \$24,736, will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2021. 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,	
2021	\$ 45,421
2022	55,335
2023	36,359
2024	31,957
2025	(3,524)

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 5.34 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 (4.34 percent) or 1-percentage-point higher (6.34 percent) than the current rate.

	Discount rate	District's proportionate share of net OPEB liability
1% decrease	4.34%	\$ 1,294,848
Current discount rate	5.34%	\$ 1,007,893
1% increase	6.34%	\$ 772,209

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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

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	\$ 780,362
Current healthcare cost trend rate	\$ 1,007,893
1% increase	\$ 1,284,010

Payable to the OPEB Plan - As of December 31, 2020 and 2019, the District reported a payable of \$6,626 and \$4,758, 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 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, 2021.

Subsequent events were evaluated through July 26, 2021, which is the date the financial statements were available to be issued.

Supplemental Information

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	McCreary County			
	Water	Sewer	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 223,527	\$ 106,429	\$	\$ 329,956
Unbilled revenues	234,311	92,949		327,260
Accounts receivable, net	414,458	136,400		550,858
Other receivables	46,336	7,342		53,678
Due from associated division	1,421,433	-	(1,421,433)	-
Inventory	114,090	50,509		164,599
Prepaid expenses	1,132	-		1,132
Total current assets	2,455,287	393,629	(1,421,433)	1,427,483
Non-current assets:				
Restricted cash and cash equivalents	322,239	58,594		380,833
Investments	381,886	-		381,886
Capital assets:				
Utility plant	44,131,946	19,229,491		63,361,437
Less accumulated depreciation	(19,052,338)	(8,634,690)		(27,687,028)
Construction in process	1,854,961	-		1,854,961
Total non-current assets	27,638,694	10,653,395		38,292,089
Deferred outflows of resources:				
Deferred outflows - other post-employment benefits	361,245	82,218		443,463
Deferred outflows - pension	334,762	75,001		409,763
Total deferred outflows	696,007	157,219	-	853,226
Total assets and deferred outflows of resources	\$ 30,789,988	\$ 11,204,243	\$ (1,421,433)	\$ 40,572,798
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 123,424	\$ 43,103	\$	\$ 166,527
Accrued interest	96,996	26,285		123,281
Due to associated division	-	1,421,433	(1,421,433)	-
Taxes payable	20,324	4,116		24,440
Other accrued liabilities	146,482	51,501		197,983
Customer deposits	39,511	-		39,511
Notes payable - current	71,665	-		71,665
Revenue bonds - current portion	355,365	50,000		405,365
Total current liabilities	853,767	1,596,438	(1,421,433)	1,028,772
Non-current liabilities:				
Revenue bonds - net current portion	9,035,034	1,434,694		10,469,728
Notes payable	587,389	65,000		652,389
Net other post-employment benefits liability	821,543	186,350		1,007,893
Net pension liability	2,612,803	589,541		3,202,344
Total non-current liabilities	13,056,769	2,275,585		15,332,354
Deferred inflows of resources:				
Deferred inflows - other post-employment benefits	183,484	41,760		225,244
Deferred inflows - pension	103,219	23,327		126,546
Total deferred inflows	286,703	65,087	-	351,790
Total liabilities and deferred inflows of resources	\$ 14,197,239	\$ 3,937,110	\$ (1,421,433)	\$ 16,712,916
NET POSITION				
Invested in capital assets, net of related debt	\$ 16,885,116	\$ 9,045,107		\$ 25,930,223
Restricted for debt service and construction	704,125	58,594		762,719
Unrestricted	(996,492)	(1,836,568)	-	(2,833,060)
Total net position	16,592,749	7,267,133	-	23,859,882
Total liabilities, deferred inflows of resources and net position	\$ 30,789,988	\$ 11,204,243	\$ (1,421,433)	\$ 40,572,798

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, 2020

	McCreary County		
	Water	Sewer	Total
Operating revenues			
Residential sales	\$ 2,488,772	\$ 396,127	\$ 2,884,899
Commercial sales	251,693	199,272	450,965
Industrial sales	50,839	49,938	100,777
Governmental sales	830,097	662,434	1,492,531
Other sales and fees	107,465	94,968	202,433
Total operating revenues	<u>3,728,866</u>	<u>1,402,739</u>	<u>5,131,605</u>
Operating expenses			
General and administrative costs	284,975	94,710	379,685
Payroll and contractual services	1,984,770	499,092	2,483,862
Repairs and maintenance	-	251,626	251,626
Other supplies and expenses	763,413	345,379	1,108,792
Depreciation	1,092,601	533,310	1,625,911
Total operating expenses	<u>4,125,759</u>	<u>1,724,117</u>	<u>5,849,876</u>
Operating loss	<u>(396,893)</u>	<u>(321,378)</u>	<u>(718,271)</u>
Nonoperating revenues (expenses)			
Interest income	11,152	830	11,982
Other income	108,769	-	108,769
Interest expense	(256,310)	(59,399)	(315,709)
Total nonoperating revenues	<u>(136,389)</u>	<u>(58,569)</u>	<u>(194,958)</u>
Loss before contributions	(533,282)	(379,947)	(913,229)
Capital grants received	<u>492,521</u>	<u>-</u>	<u>492,521</u>
Change in net position	(40,761)	(379,947)	(420,708)
Total net position on December 31, 2019	<u>16,633,510</u>	<u>7,647,080</u>	<u>24,280,590</u>
Total net position on December 31, 2020	<u>\$ 16,592,749</u>	<u>\$ 7,267,133</u>	<u>\$ 23,859,882</u>

See Independent Auditor's Report

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF CASH FLOWS
DECEMBER 31, 2020

	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash received from customers	\$ 3,563,588	\$ 1,356,933	\$ 4,920,521
Operating expenses:			
General and administrative	(284,975)	(94,710)	(379,685)
Payroll and related expenses	(1,751,674)	(444,891)	(2,196,565)
Repairs and maintenance	-	(251,626)	(251,626)
Other supplies and expenses	(927,606)	(359,153)	(1,286,759)
Net cash provided by operating activities	<u>599,333</u>	<u>206,553</u>	<u>805,886</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(1,314,201)	(88,420)	(1,402,621)
Principal paid on debt	(2,436,971)	(288,000)	(2,724,971)
Proceeds from debt borrowings	2,859,306	299,694	3,159,000
Interest paid on debt	(264,697)	(59,399)	(324,096)
Capital contributions	492,521	-	492,521
Net cash used in capital and related financing activities	<u>(664,042)</u>	<u>(136,125)</u>	<u>(800,167)</u>
Cash Flows from Investing Activities			
Interest income from investments	11,152	830	11,982
Other cash receipts	108,769	-	108,769
Net cash provided by investing activities	<u>119,921</u>	<u>830</u>	<u>120,751</u>
Net increase in cash and cash equivalents	55,212	71,258	126,470
Cash and cash equivalents, at beginning of year	<u>872,440</u>	<u>93,765</u>	<u>966,205</u>
Cash and cash equivalents, at end of year	<u>\$ 927,652</u>	<u>\$ 165,023</u>	<u>\$ 1,092,675</u>
Unrestricted cash and cash equivalents	\$ 223,527	\$ 106,429	\$ 329,956
Restricted cash and cash equivalents	<u>704,125</u>	<u>58,594</u>	<u>762,719</u>
Total cash and cash equivalents, at end of year	<u>\$ 927,652</u>	<u>\$ 165,023</u>	<u>\$ 1,092,675</u>

See Independent Auditor's Report.

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
DECEMBER 31, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (396,893)	\$ (321,378)	\$ (718,271)
 Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	1,092,601	533,310	1,625,911
Bad debt expense	53,440	12,720	66,160
Change in assets and liabilities:			
Increase in receivables	(218,718)	(58,526)	(277,244)
Increase in inventories	(15,301)	(15,134)	(30,435)
Decrease in prepaids	16,424	-	16,424
Decrease in accounts payable	(150,388)	(9,430)	(159,818)
Increase in customer deposits	2,126	-	2,126
(Decrease) increase in accrued liabilities	(14,805)	8,541	(6,264)
Increase in net OPEB obligation	36,107	8,867	44,974
Increase in net pension obligation	196,989	45,334	242,323
 Net cash provided by operating activities	 <u>\$ 601,582</u>	 <u>\$ 204,304</u>	 <u>\$ 805,886</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, 2020

	2020	2019	2018	2017
District's proportion of the net pension liability	0.041752%	0.044240%	0.045494%	0.043724%
District's proportionate share of the net pension liability	\$ 3,202,344	\$ 3,111,418	\$ 2,770,845	\$ 2,559,300
District's covered employee payroll	\$ 1,069,480	\$ 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	299.43%	278.82%	245.73%	240.41%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	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, 2020

	2020	2019	2018	2017
Contractually required employer contributions	\$ 211,472	\$ 200,597	\$ 167,189	\$ 160,610
Contributions relative to contractually required employer contributions	<u>211,472</u>	<u>200,597</u>	<u>167,189</u>	<u>160,610</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,091,554	\$ 1,129,480	\$ 1,088,383	\$ 1,128,886
Employer contributions as a percentage of covered-employee payroll	19.37%	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	<u>134,208</u>	<u>126,892</u>	<u>127,882</u>	
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
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, 2020

	2020	2019	2018	2017
District's proportion of the net OPEB liability	0.041740%	0.044229%	0.045494%	0.043724%
District's proportionate share of the net OPEB liability	\$ 1,007,893	\$ 743,912	\$ 807,737	\$ 879,002
District's covered employee payroll	\$ 1,069,480	\$ 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	94.24%	66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	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 fiscal year presented.

McCreary County Water District
Schedule of OPEB Contributions
As of and for the Year Ended December 31, 2020

	2020	2019	2018	2017
Contractually required employer contributions	\$ 52,156	\$ 56,587	\$ 54,241	\$ 53,219
Contributions relative to contractually required employer contributions	<u>52,156</u>	<u>56,587</u>	<u>54,241</u>	<u>53,219</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,091,554	\$ 1,129,480	\$ 1,088,383	\$ 1,128,886
Employer contributions as a percentage of covered-employee payroll	4.78%	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, 2020

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, 2020

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.

McCreary County Water District
Schedule of Expenditures of Federal Awards
December 31, 2020

			Total Federal Expenditures
Federal Grantor / Pass-Through	Federal Grantor / Program	CFDA	
or Cluster Title	Number	Program/Award	FYE 12/31/20
Rural Development	10.760	Rural Development Stearns to Smithtown Water Line Replacement Loan / Grant	<u>\$ 1,116,012</u> Major

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of McCreary County Water District under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of McCreary County Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of McCreary County Water District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rates

McCreary County Water District has elected not to use the 10 percent *de minimus* indirect cost rate as allowed under the Uniform Guidance.

Note 4. Pass-Through Awards

There were no awards passed through to recipients.

FAULKNER, KING & WENZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH C. KING, CPA
JOHN M. WENZ, CPA
KEVIN M. ROMENESKO, CPA
KAREN S. TRENT, CPA
EUGENE C. WEATHERS III, CPA

P.O. BOX 285
117 WEST HIGH STREET
MT. STERLING, KY 40353
(859) 498-1836 FAX (859) 498-2116

ERICA M. SNOWDEN, CPA
JENNIFER T. COLLINGWOOD, CPA
LESLIE J. BUTCHER
SARAH R. FOSTER

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, 2020, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated July 26, 2021.

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

July 26, 2021

FAULKNER, KING & WENZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH C. KING, CPA
JOHN M. WENZ, CPA
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Major Federal Program

We have audited McCreary County Water District, Water and Sewer divisions, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2020. McCreary County Water District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

McCreary County Water District
Whitley City, Kentucky
Page 2

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

Opinion on Major Federal Program

In our opinion, McCreary County Water District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

McCreary County Water District
Whitley City, Kentucky
Page 3

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

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

Faulkner, King & Wenz, PSC

July 26, 2021

McCREARY COUNTY WASTER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2020

Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether the
financial statements audited were prepared in
accordance with GAAP: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X no
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards:

Type of auditor's report issued on compliance for
major federal programs: unmodified

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X no

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

Identification of major federal program(s):

CFDA Numbers	<u>Name of Federal Program or Cluster</u>
10.760	Rural Development

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

Auditee qualified as a low-risk auditee? _____ yes X no