



**McCreary County
Water District**
PO Box 488 Whitley City, KY 42653
(606)376-2540

November 5, 2019

RECEIVED

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

NOV 7 2019

Public Service
Commission

RE: McCreary County Water District
December 31, 2018 and 2017 Annual Report
Water & Sewer Divisions

Dear Mr. Cline:

Please find enclosed is the McCreary County Water District Independent Auditor's Report and Combined Financial Statements December 31, 2018 and 2017 for both the water and sewer divisions.

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

Sincerely,



Stephen Whitaker, Manager/Supt.
McCreary County Water District

SW/kt

Enclosure

McCreary County Water District
Water and Sewer Divisions

* * * *

Independent Auditor's Report
and Combined Financial Statements
December 31, 2018 and 2017

FAULKNER, KING, & WENZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

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**MCCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

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, 2018 and 2017. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

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

For the year ended December 31, 2017, total operating and non-operating revenues (including capital contributions) totaled \$4,972,957 and operating expenses and non-operating expenses amounted to \$6,227,192, creating a decrease in net position of \$1,254,235. At year end, net position totaled \$27,493,220 of which \$28,510,430 (net of related debt) was invested in capital assets, and \$759,071 was restricted for debt service and construction. This left a net amount of \$(1,776,281) 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, 2018 AND 2017**

Condensed Comparative Financial Analysis:

McCreary County Water District
Water and Sewer Divisions
Statements of Net Position-Summary
December 31, 2018 and 2017

Assets	<u>2018</u>	<u>2017</u>
Total Current Assets	\$ 1,189,079	\$ 1,369,825
Total Restricted Assets	721,751	759,071
Net Capital Assets	38,566,577	38,710,701
Total Assets	<u>\$ 40,477,407</u>	<u>\$ 40,839,597</u>
Deferred Outflows of Resources	<u>756,068</u>	<u>878,948</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 41,233,475</u>	<u>\$ 41,718,545</u>
Liabilities		
Total Current Liabilities	\$ 962,309	\$ 849,304
Total Non-current Liabilities	14,225,782	13,254,559
Total Liabilities	<u>\$ 15,188,091</u>	<u>\$ 14,103,863</u>
Deferred Inflows of Resources	<u>\$ 227,072</u>	<u>\$ 121,462</u>
Net Position:		
Invested in capital assets, net of related debt	\$ 27,457,965	\$ 28,510,430
Restricted for debt service and construction	721,751	759,071
Unrestricted	(2,361,404)	(1,776,281)
Total Net Position	<u>\$ 25,818,312</u>	<u>\$ 27,493,220</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 41,233,475</u>	<u>\$ 41,718,545</u>

The largest portion per year (106.35% and 103.69% respectively) of the utility's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The utility used these capital assets to provide services to citizens and consumers. Consequently, these assets are not available for future spending.

Restricted net position per year (2.79% and 2.76% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (-9.14% and -6.45% 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, 2018 AND 2017**

McCreary County Water District
Water and Sewer Divisions
Statements of Operations
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Total operating revenues	\$ 4,164,004	\$ 4,179,599
Total operating expenses	<u>5,697,519</u>	<u>5,778,682</u>
Operating loss	(1,533,515)	(1,599,083)
Total non-operating expenses	<u>(404,305)</u>	<u>(39,149)</u>
Loss before capital contributions	(1,937,820)	(1,638,232)
Capital contributions	<u>262,912</u>	<u>383,997</u>
Change in net position	(1,674,908)	(1,254,235)
Beginning of year	<u>27,493,220</u>	<u>28,747,455</u>
End of year	<u>\$ 25,818,312</u>	<u>\$ 27,493,220</u>

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

During 2017, net position decreased by \$1,254,235 and consisted of an operating loss of (\$1,599,083), net non-operating revenues and expenses of (\$39,149) and capital contributions of \$383,997.

Capital Asset Changes

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

At December 31, 2017, the Utility had invested \$38,710,701 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$1,221,253 from the previous year. The net decrease consisted of additions to capital assets of \$479,778 less depreciation expense of \$1,563,447 and \$137,584 in disposals. The additions were mainly financed with proceeds of capital grants.

Debt Administration

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

**McCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

At December 31, 2017, the utility had total debt equal to \$10,200,271, which consisted of \$10,200,271 of bonds outstanding, \$0 of notes payable, and capital leases of \$0. At the beginning of the year total debt equaled \$10,573,827. The decrease in debt of \$373,556 was due to scheduled principal payments of \$373,556.

Other Matters

During 2015, the District implemented GASB No. 68, Accounting and Financial Reporting for Pensions. This standard requires cost sharing governments to report a net pension liability, pension expense and pension related deferred inflows and outflows of resources based upon their proportionate share of the collection amounts for all the governments in the plan; therefore, included in long term liabilities is a net pension liability of \$2,770,845 for 2018, and \$2,559,300 for 2017.

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 \$807,737 for 2018 and \$879,002 for 2017.

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
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of the business-type activities of McCreary County Water District, Water and Sewer Divisions as of and for the years ended December 31, 2018 and 2017, 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.

McCreary County Water District
Water and Sewer Divisions
Whitley City, Kentucky 42653
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In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the 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, 2018 and 2017 and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of proportionate share of the net pension and OPEB liabilities and the schedule of contributions on pages 1 through 4 and 38 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the

McCreary County Water District
Water and Sewer Divisions
Whitley City, Kentucky 42653
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information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise McCreary County Water District, Water and Sewer Divisions' basic financial statements. The accompanying combining statements of net position, revenues, expenses and changes in net position, and cash flows are presented for purposes of additional analysis, and are not a required part of the combined financial statements of the McCreary County Water District, Water and Sewer Divisions.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019, 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

October 25, 2019

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF NET POSITION
DECEMBER 31, 2018 and 2017**

ASSETS

	2018	2017
Current assets:		
Cash and cash equivalents	\$ 405,591	\$ 552,316
Unbilled revenues	242,315	229,813
Accounts receivable	359,356	359,658
Other receivables	9,940	8,971
Inventory	149,233	192,132
Prepaid expenses	22,644	26,935
Total current assets	<u>1,189,079</u>	<u>1,369,825</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	378,518	420,338
Investments	343,233	338,733
Capital assets:		
Utility plant	63,022,678	60,565,481
Less accumulated depreciation	(24,456,101)	(23,741,787)
Construction in process	-	1,887,007
Total non-current assets	<u>39,288,328</u>	<u>39,469,772</u>
Deferred Outflows of Resources:		
Deferred outflows - OPEB	225,152	229,761
Deferred outflows - pension	530,916	649,187
Total deferred outflows	<u>756,068</u>	<u>878,948</u>
 Total assets and deferred outflows of resources	 <u>\$ 41,233,475</u>	 <u>\$ 41,718,545</u>

LIABILITIES

Current liabilities:		
Accounts payable	\$ 156,448	\$ 158,509
Accrued interest	130,193	125,072
Taxes payable	17,516	23,254
Other accrued liabilities	148,475	113,619
Implicit subsidy - OPEB	13,030	10,744
Customer deposits	35,235	34,092
Notes payable - current	69,355	-
Revenue bonds - current portion	392,057	384,014
Total current liabilities	<u>962,309</u>	<u>849,304</u>
Non-current liabilities:		
Revenue bonds - net current portion	9,424,200	9,816,257
Notes payable	1,223,000	-
Net OPEB liability	807,737	879,002
Net pension liability	2,770,845	2,559,300
Total non-current liabilities	<u>14,225,782</u>	<u>13,254,559</u>
Total liabilities	<u>15,188,091</u>	<u>14,103,863</u>
 Deferred Inflows of Resources		
Deferred inflows - OPEB	153,288	46,022
Deferred inflows - pension	73,784	75,440
Total deferred inflows	<u>227,072</u>	<u>121,462</u>

NET POSITION

Invested in capital assets, net of related debt	27,457,965	28,510,430
Restricted for debt service and construction	721,751	759,071
Unrestricted	(2,361,404)	(1,776,281)
Total net position	<u>25,818,312</u>	<u>27,493,220</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 41,233,475</u>	 <u>\$ 41,718,545</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Residential sales	\$ 2,568,952	\$ 2,505,558
Commercial sales	375,334	371,926
Industrial sales	9,817	12,230
Governmental sales	1,099,619	1,161,528
Other sales	110,282	128,357
Total operating revenues	<u>4,164,004</u>	<u>4,179,599</u>
Operating expenses		
General and administrative costs	252,560	263,844
Payroll and related expenses	2,449,977	2,294,868
Repairs and maintenance	165,590	119,125
Other supplies and expenses	1,254,313	1,370,896
Project costs	-	166,502
Depreciation and amortization	1,575,079	1,563,447
Total operating expenses	<u>5,697,519</u>	<u>5,778,682</u>
Operating loss	<u>(1,533,515)</u>	<u>(1,599,083)</u>
Nonoperating revenues (expenses)		
Interest income	9,800	8,454
Other income	95,284	400,907
Gain (loss) on sale of fixed assets	(215,345)	(137,584)
Gain on sale of fixed assets	16,477	-
Interest expense	(310,521)	(310,926)
Net nonoperating expenses	<u>(404,305)</u>	<u>(39,149)</u>
Loss before contributions	(1,937,820)	(1,638,232)
Capital grants received	<u>262,912</u>	<u>383,997</u>
Change in net position	(1,674,908)	(1,254,235)
Total net position beginning of year	<u>27,493,220</u>	<u>28,747,455</u>
Total net position end of year	<u>\$ 25,818,312</u>	<u>\$ 27,493,220</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 4,150,332	\$ 4,216,276
Operating expenses:		
General and administrative	(252,560)	(263,844)
Payroll and related expenses	(2,078,921)	(1,952,608)
Repairs and maintenance	(165,590)	(119,125)
Project costs	-	(166,502)
Other supplies and expenses	(1,178,923)	(1,384,631)
Net cash provided by operating activities	<u>474,338</u>	<u>329,566</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,646,555)	(479,778)
Proceeds from sale of capital assets	16,642	-
Principal paid on debt	(384,014)	(373,556)
Proceeds from debt borrowings	1,292,355	-
Interest paid on debt	(305,400)	(314,233)
Capital contributions	262,912	383,997
Net cash used in capital and related financing activities	<u>(764,060)</u>	<u>(783,570)</u>
Cash Flows from Investing Activities		
Interest income from investments	10,393	8,454
Other cash receipts	95,284	400,907
Net cash provided by investing activities	<u>105,677</u>	<u>409,361</u>
Net decrease in cash and cash equivalents	(184,045)	(44,643)
Cash and cash equivalents, at beginning of year	<u>1,311,387</u>	<u>1,356,030</u>
Cash and cash equivalents, at end of year	<u>\$ 1,127,342</u>	<u>\$ 1,311,387</u>
Unrestricted cash and cash equivalents	\$ 405,591	\$ 552,316
Restricted cash and cash equivalents	<u>721,751</u>	<u>759,071</u>
Total cash and cash equivalents, at end of year	<u>\$ 1,127,342</u>	<u>\$ 1,311,387</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non-cash transactions:		
Donation of land from Fiscal Court	<u>\$ 70,000</u>	<u>\$ -</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,533,515)	\$ (1,599,083)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,575,079	1,563,447
Bad debt expense	8,860	32,182
Change in assets and liabilities:		
Decrease in receivables	(22,532)	4,495
Decrease in inventories	42,899	30,528
Decrease (increase) in prepaids	4,291	(246)
Decrease in accounts payable	(2,061)	(37,359)
Increase in customer deposits	1,143	3,470
Increase (decrease) in accrued expenses	29,118	(10,128)
Increase in net OPEB obligation	42,896	49,812
Increase in net pension obligation	328,160	292,448
Net cash provided by operating activities	<u>\$ 474,338</u>	<u>\$ 329,566</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

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, 2018 and 2017**

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, 2018 and 2017**

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 \$233,400 and \$224,540 for the years ended December 31, 2018 and 2017 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 \$262,912 and \$383,997 in grants for the years ended December 31, 2018 and 2017 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 \$1,575,079 and \$1,563,447 for the years ended December 31, 2018 and 2017 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, 2018 and 2017**

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 \$1,126,342 and \$1,310,387 for the years ended December 31, 2018 and 2017 respectively and the respective bank balances totaled \$1,165,783 and \$1,402,443 respectively for the years then ended. The bank balances are covered by \$618,979 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, 2018, categorized by level of risk, are:

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

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits at December 31, 2017, categorized by level of risk, are:

	Risk Category			Bank	Book
	1	2	3	Balance	Value
Unrestricted deposits					
Operating accounts	\$ 108,327	\$ -	\$ 390,932	\$ 499,259	\$ 407,203
Depreciation funds	99,234		44,879	144,113	144,113
Restricted deposits					
Debt service funds	-	-	257,858	257,858	257,858
Depreciation funds	162,480	-	-	162,480	162,480
Investments	<u>338,733</u>	<u>-</u>	<u>-</u>	<u>338,733</u>	<u>338,733</u>
Total deposits	<u>\$ 708,774</u>	<u>\$ -</u>	<u>\$ 693,669</u>	<u>\$ 1,402,443</u>	<u>\$1,310,387</u>

The District also had \$1,000 and \$1,000 of petty cash on hand for the years ended December 31, 2018 and 2017 respectively.

Investments

At December 31, 2018 and 2017, 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, 2018 categorized by level of risk, are:

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

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments at December 31, 2017, categorized by level of risk, are:

	Risk Category			Book	Fair
	1	2	3	Value	Value
Treasury MM Fund	<u>\$338,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$338,733</u>	<u>\$338,733</u>
Total investments	<u>\$338,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$338,733</u>	<u>\$338,733</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, 2018 and 2017 are:

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

	Cash	Investments at cost	Total
Debt service funds	\$ 216,038	\$ -	\$ 216,038
Construction funds	-	-	-
Depreciation funds	162,480	-	162,480
Treasury MM fund	<u>-</u>	<u>343,233</u>	<u>343,233</u>
Total restricted assets	<u>\$ 378,518</u>	<u>\$ 343,233</u>	<u>\$ 721,751</u>

A schedule of restricted assets at December 31, 2017 are:

	Cash	Investments at cost	Total
Debt service funds	\$ 257,858	\$ -	\$ 257,858
Construction funds	-	-	-
Depreciation funds	162,480	-	162,480
Treasury MM fund	<u>-</u>	<u>338,733</u>	<u>338,733</u>
Total restricted assets	<u>\$ 420,338</u>	<u>\$ 338,733</u>	<u>\$ 759,071</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 4 - CAPITAL ASSETS

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

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

The following represents the activity for the year ended December 31, 2017:

	Balance 12/31/2016	Additions	Disposals	Transfers	Balance 12/31/2017
Operating fixed assets:					
Land	\$ 260,269	\$ -	\$ -	\$ -	\$ 260,269
Buildings & Improvements	19,929,600	-	-	-	19,929,600
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	23,379,185	32,853	(186,555)	564,886	23,790,369
Services/meters	3,752,408	19,356	-	-	3,771,764
Other equipment	<u>9,520,384</u>	<u>43,282</u>	<u>-</u>	<u>-</u>	<u>9,563,666</u>
	60,091,659	95,491	(186,555)	564,886	60,565,481
Accumulated depreciation	<u>(22,227,311)</u>	<u>(1,563,447)</u>	<u>48,971</u>	<u>-</u>	<u>(23,741,787)</u>
	37,864,348	(1,467,956)	(137,584)	564,886	36,823,694
Construction in progress	<u>2,067,606</u>	<u>384,287</u>	<u>-</u>	<u>(564,886)</u>	<u>1,887,007</u>
Utility plant, net	<u>\$39,931,954</u>	<u>\$ (1,083,669)</u>	<u>\$ (137,584)</u>	<u>\$ -</u>	<u>\$38,710,701</u>

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

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, 2018.

The District's bonded indebtedness and other long-term debt at December 31, 2018 and 2017, are summarized as follows:

<u>Debt Description</u>	<u>Rate</u>	<u>Original Issue</u>	<u>Principal O/S 2018</u>	<u>Principal O/S 2017</u>
Water District				
United Cumberland	3.900%	\$ 495,000	\$ 495,000	\$ -
BB&T	3.945%	797,355	797,355	-
RD Series 2013 D	Variable	1,415,000	955,000	1,050,000
RD 2013 Series A	1.875%	635,000	590,500	602,000
RD 2005 Series A	4.125%	750,000	630,000	642,500
RD 2008 Series A	4.125%	325,000	285,800	290,900
RD 2008 Series A	4.125%	150,000	131,900	134,200
RD Series 2012 D	Variable	3,205,000	2,700,000	2,795,000
RD Series 2012 D-1	Variable	1,935,000	1,213,000	1,235,500
RD Series 2015	2.500%	1,158,000	1,142,000	1,158,000
KIA CD2-01	1.000%	* 1,510,000	580,057	654,171
Sewer District				
RD 2005 Series A	4.125%	290,000	243,000	248,000
RD Series 2012 D	Variable	<u>1,595,000</u>	<u>1,345,000</u>	<u>1,390,000</u>
		14,260,355	11,108,612	10,200,271
Less current maturities			<u>(461,412)</u>	<u>(384,014)</u>
Total long-term debt			<u>\$10,647,200</u>	<u>\$ 9,816,257</u>

* The original issue of the KIA CD2-01 loan is \$1,510,000. As of December 31, 2018, 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, 2018 and 2017**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

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

The District's bonded indebtedness and other long-term debt at December 31, 2017 is detailed as follows:

	Principal Balance 12/31/2016	Borrowings	Principal Payments	Principal Balance 12/31/2017	Current	Long-Term
Water District						
Ricoh Finance	\$ 2,994	\$ -	\$ 2,994	\$ -	\$ -	\$ -
2005 Series A	654,500	-	12,000	642,500	12,500	630,000
2008 Series A	295,800	-	4,900	290,900	5,100	285,800
2008 Series A	136,500	-	2,300	134,200	2,300	131,900
2012 Series D	2,885,000	-	90,000	2,795,000	95,000	2,700,000
2012 Series D1	1,257,500	-	22,000	1,235,500	22,500	1,213,000
2013 Series D	613,000	-	11,000	602,000	11,500	590,500
2013 Series A	1,145,000	-	95,000	1,050,000	95,000	955,000
2015 Series	1,158,000	-	-	1,158,000	16,000	1,142,000
KIA F04-03	727,549	-	73,378	654,171	74,114	580,057
Sewer District						
2005 Series A	252,500	-	4,500	248,000	5,000	243,000
2012 Series D	1,435,000	-	45,000	1,390,000	45,000	1,345,000
N/P - UCB	10,484	-	10,484	-	-	-
	<u>\$10,573,827</u>	<u>\$ -</u>	<u>\$ 373,556</u>	<u>\$10,200,271</u>	<u>\$ 384,014</u>	<u>\$ 9,816,257</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The long-term debt service requirements are as follows:

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
2019	\$ 414,704	\$ 50,000	\$ 264,825	\$ 60,749	\$ 679,529	\$ 110,749
2020	917,383	55,500	257,100	59,004	1,174,483	114,504
2021	433,199	55,500	245,911	57,219	679,110	112,719
2022	449,131	56,000	234,063	55,434	683,194	111,434
2023	440,381	61,000	221,906	53,456	662,287	114,456
2024-2028	2,048,114	330,000	915,294	233,103	2,963,408	563,103
2029-2033	1,345,500	393,500	632,873	164,071	1,978,373	557,571
2034-2038	1,211,600	405,000	416,123	79,829	1,627,723	484,829
2039-2043	967,200	168,000	220,400	18,290	1,187,600	186,290
2044-2048	671,400	13,500	111,835	608	783,235	14,108
2049-2053	519,500	-	38,377	-	557,877	-
2054-2055	102,500	-	3,250	-	105,750	-
	<u>\$9,520,612</u>	<u>\$1,588,000</u>	<u>\$3,561,957</u>	<u>\$ 781,763</u>	<u>\$13,082,569</u>	<u>\$2,369,763</u>

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

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

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

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

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

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

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

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

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

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

United Cumberland Bank - Installment loan dated September 28, 2018, due in one annual installment on March 20, 2020, bearing an interest rate of 3.9%.

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

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

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 \$27,457,965 and \$28,510,430 for the years ended December 31, 2018 and 2017 respectively.

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

	<u>2018</u>	<u>2017</u>
Construction	\$ -0-	\$ -0-
Depreciation	162,480	162,480
Debt Service	216,038	257,858
Treasury MM Fund	<u>343,233</u>	<u>338,733</u>
Total Restricted	<u>\$ 721,751</u>	<u>\$ 759,071</u>

The District has a balance of \$(2,361,404) and \$(1,776,281) for unrestricted net position at December 31, 2018 and 2017 respectively.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

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 fund as of December 31, 2018 and 2017 equaled \$298,402 and \$306,593 respectively. The required balance is \$162,480 and \$162,480 respectively.

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

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - FAIR VALUE MEASUREMENTS

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

Level 1 Fair Value Measurements

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

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

Assets at Fair Value as of December 31, 2018

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

Assets at Fair Value as of December 31, 2017

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$338,733</u>	-	-	<u>\$338,733</u>
Total assets at fair value	<u>\$338,733</u>	-	-	<u>\$338,733</u>

NOTE 10 - PENSION PLAN

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

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

Contributions - For the year ended December 31, 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 10 - PENSION PLAN (CONTINUED)

For the year ended December 31, 2018, the District contributed 14.48% of each employee's covered payroll from January to June, 2018 and 16.22% of each employee's covered payroll from July to December, 2018 to the pension fund, both of which are equal to the actuarially determined rates set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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.

The District contributed for the years ended December 31, 2018 and 2017 \$167,189 and \$160,610, respectively, or 100% of the required contribution to the pension fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At December 31, 2018 the District reported a liability of \$2,770,845 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled-forward from the valuation date to June 30, 2018 using generally accepted actuarial principles. The District's proportion of the net pension liability was determined using the District's actual contributions for the year ended June 30, 2018. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2018, the District's proportion was 0.045494 percent, which is equal to its proportion measured as of June 30, 2018. For the year ended December 31, 2017, the District's proportion was 0.043724 percent, which is equal to its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the District recognized pension expense of \$490,064. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 10 - PENSION PLAN (CONTINUED)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Effects of changes of assumptions	\$ 270,792	\$ -
District contributions subsequent to the measurement date	89,412	-
Difference between projected and actual earnings on plan investments	-	33,225
Changes in proportion and differences between District contributions and proportionate share of contributions	80,333	-
Differences between expected and actual liability experience	<u>90,379</u>	<u>40,559</u>
Total	<u>\$ 530,916</u>	<u>\$ 73,784</u>

The \$89,412 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, 2019. 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,		
	2019	\$ 265,508
	2020	137,790
	2021	(20,706)
	2022	(14,872)

Actuarial Assumptions - The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017. However, 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. 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 the member's average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 is determined using these updated benefit provisions. The actuarial assumptions used in the June 30, 2017 actuarial valuation are as follows:

Inflation	2.30%
Salary Increases	3.05%, average
Investment Rate of Return	6.25%

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 10 - PENSION PLAN (CONTINUED)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back 4 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.

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, 2018 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2008 - June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in May and July 2017, for use with the June 30, 2018 valuation.

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	Long-term Expected	
	Target	Real Rate
	Allocation	of Return
US Equity Large Cap	5.00%	4.50%
US Equity Mid Cap	6.00%	4.50%
US Equity Small Cap	6.50%	5.50%
International Equity	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Private Credit	10.00%	8.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Private Equity	10.00%	6.50%
Cash Equivalent	2.00%	1.50%
Total	100.00%	

Discount Rate - The discount rate used to measure the total pension liability was 6.25 percent at June 30, 2018. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

NOTE 10 - PENSION PLAN (CONTINUED)

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

	<u>Discount rate</u>	<u>District's proportionate share of net pension liability</u>
1% decrease	5.25%	\$ 3,488,207
Current discount rate	6.25%	\$ 2,770,845
1% increase	7.25%	\$ 2,169,821

Payable to the Pension Plan - At December 31, 2018 and 2017, the District reported a payable of \$15,856 and \$18,540, respectively, for the outstanding amount of contributions to the pension plan required for the year then ended. The payable only includes the pension portion of the contribution. Please refer to Note 11 for the amount due to the insurance fund.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFIT PLAN

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

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

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

Membership in the CERS Non-hazardous Insurance Fund consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

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

Membership Status

Inactive plan members currently receiving benefits:	33,481
Inactive plan members entitled to but not yet receiving benefits:	8,230
Active plan members:	<u>81,891</u>
Total plan members:	<u>123,602</u>

Actuarial Assumptions - The total OPEB liability, net OPEB liability, and sensitivity information as of December 31, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, 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. 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. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions. The actuarial assumptions used in the June 30, 2017 actuarial valuation are as follows:

Inflation	2.30%
Payroll Growth Rate	2.00%, CERS non-hazardous
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is 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.

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, 2018 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2008 - June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in May and July 2017, for use with the June 30, 2017 valuation in order to reflect future economic expectations.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

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

Discount Rate - The single discount rate of 5.85% for CERS Non-hazardous is based on the long-term expected rate of return on OPEB plan investments of 6.25% and a long-term municipal bond rate of 3.62% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability.

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 Large Cap	5.00%	4.50%
US Equity Mid Cap	6.00%	4.50%
US Equity Small Cap	6.50%	5.50%
International Equity	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Private Credit	10.00%	8.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Private Equity	10.00%	6.50%
Cash Equivalent	2.00%	1.50%
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 in order to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions related to 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, 2018 and 2017 was \$13,030 and \$10,744 respectively.

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

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

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

For the year ended December 31, 2018, the District contributed 4.70% of each employee's covered payroll from January to June, 2018 and 5.26% of each employee's covered payroll from July to December, 2018 to the insurance fund, both of which are equal to the actuarially determined rates set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

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

McCreary County Water District contributed for the years ended December 31, 2018 and 2017, \$54,241 and \$53,219, respectively, or 100% of the required contribution to the insurance fund. For additional information regarding contributions, please refer to Note 10.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At December 31, 2018, the District reported a liability of \$807,737 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017, rolled-forward to June 30, 2018 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, 2018. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2018, the District's proportion was 0.045494 percent, which is equal to its proportion measured as of June 30, 2018. For the year ended December 31, 2017, the District's proportion was 0.043724 percent, which is equal to its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the District recognized OPEB expense of \$106,777. At December 31, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Effects of changes of assumptions	\$ 161,317	\$ 1,866
District contributions subsequent to the measurement date (including implicit subsidy)	42,025	-
Differences between projected and actual earnings on plan investments	-	55,637
Differences between expected and actual liability experience	-	94,131
Changes in proportion and differences between District contributions and proportionate share of contributions	21,810	1,654
Total	<u>\$ 225,152</u>	<u>\$ 153,288</u>

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

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

The \$42,025 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date of \$28,995 and the June 30, 2019 implicit subsidy of \$13,030, will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. 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,	
2019	\$ 6,604
2020	6,604
2021	6,604
2022	17,410
2023	(3,298)
Thereafter	(4,085)

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 5.85 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 (4.85 percent) or 1-percentage-point higher (6.85 percent) than the current rate.

	Discount rate	District's proportionate share of net OPEB liability
1% decrease	4.85%	\$ 1,049,121
Current discount rate	5.85%	\$ 807,737
1% increase	6.85%	\$ 602,122

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	\$ 601,368
Current healthcare cost trend rate	\$ 807,737
1% increase	\$ 1,050,986

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

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

Payable to the OPEB Plan - At December 31, 2018 and 2017, the District reported a payable of \$5,142 and \$6,018, 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

Subsequent events were evaluated through October 25, 2019, which is the date the financial statements were available to be issued.

NOTE 13 - RESTATEMENT OF NET POSITION

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

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

	<u>2018</u>	<u>2017</u>
Net position, at beginning of year	\$28,207,608	\$29,412,031
Beginning net OPEB liability and deferred outflows	<u>(714,388)</u>	<u>(664,576)</u>
Net position, at beginning of year, as restated	<u>\$27,493,220</u>	<u>\$28,747,455</u>
Change in net position as previously reported		\$ (1,204,423)
OPEB expense adjustment		<u>(49,812)</u>
		<u>\$ (1,254,235)</u>

Supplemental Information

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	McCreary County			
	Water	Sewer	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 384,430	\$ 21,161	\$	\$ 405,591
Unbilled revenues	180,991	61,324		242,315
Accounts receivable, net	280,589	78,767		359,356
Other receivables	2,119	7,821		9,940
Due from associated division	1,312,815	-	(1,312,815)	-
Inventory	108,203	41,030		149,233
Prepaid expenses	22,644	-		22,644
Total current assets	2,291,791	210,103	(1,312,815)	1,189,079
Non-current assets:				
Restricted cash and cash equivalents	338,945	39,573		378,518
Investments	343,233	-		343,233
Capital assets:				
Utility plant	43,883,812	19,138,866		63,022,678
Less accumulated depreciation	(16,887,162)	(7,568,939)		(24,456,101)
Total non-current assets	27,678,828	11,609,500		39,288,328
Deferred outflows of resources:				
Deferred outflows - other post-employment benefits	195,579	29,573		225,152
Deferred outflows - pension	458,393	72,523		530,916
Total deferred outflows	653,972	102,096	-	756,068
Total assets and deferred outflows of resources	\$ 30,624,591	\$ 11,921,699	\$ (1,312,815)	\$ 41,233,475
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 121,265	\$ 35,183	\$	\$ 156,448
Accrued interest	99,914	30,279		130,193
Due to associated division	-	1,312,815	(1,312,815)	-
Taxes payable	15,507	2,009		17,516
Other accrued liabilities	132,154	16,321		148,475
Implicit subsidy - other post-employment benefits	11,338	1,692		13,030
Customer deposits	35,235	-		35,235
Notes payable - current	69,355	-		69,355
Revenue bonds - current portion	342,057	50,000		392,057
Total current liabilities	826,825	1,448,299	(1,312,815)	962,309
Non-current liabilities:				
Revenue bonds - net current portion	7,886,200	1,538,000		9,424,200
Notes payable	1,223,000			1,223,000
Net other post-employment benefits liability	702,731	105,006		807,737
Net pension liability	2,392,348	378,497		2,770,845
Total non-current liabilities	12,204,279	2,021,503		14,225,782
Deferred inflows of resources:				
Deferred inflows - other post-employment benefits	133,360	19,928		153,288
Deferred inflows - pension	63,705	10,079		73,784
Total deferred inflows	197,065	30,007	-	227,072
Total liabilities and deferred inflows of resources	\$ 13,228,169	\$ 3,499,809	\$ (1,312,815)	\$ 15,415,163
NET POSITION				
Invested in capital assets, net of related debt	17,476,038	9,981,927		27,457,965
Restricted for debt service and construction	682,178	39,573		721,751
Unrestricted	(761,794)	(1,599,610)	-	(2,361,404)
Total net position	17,396,422	8,421,890	-	25,818,312
Total liabilities, deferred inflows of resources and net position	\$ 30,624,591	\$ 11,921,699	\$ (1,312,815)	\$ 41,233,475

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, 2018

	McCreary County		
	Water	Sewer	Total
Operating revenues			
Residential sales	\$ 2,259,252	\$ 309,700	\$ 2,568,952
Commercial sales	221,362	153,972	375,334
Industrial sales	5,177	4,640	9,817
Governmental sales	658,777	440,842	1,099,619
Other sales and fees	87,801	22,481	110,282
Total operating revenues	<u>3,232,369</u>	<u>931,635</u>	<u>4,164,004</u>
Operating expenses			
General and administrative costs	237,600	14,960	252,560
Payroll and contractual services	1,944,695	505,282	2,449,977
Repairs and maintenance	-	165,590	165,590
Other supplies and expenses	887,499	366,814	1,254,313
Depreciation	1,037,757	537,322	1,575,079
Total operating expenses	<u>4,107,551</u>	<u>1,589,968</u>	<u>5,697,519</u>
Operating loss	<u>(875,182)</u>	<u>(658,333)</u>	<u>(1,533,515)</u>
Nonoperating revenues (expenses)			
Interest income	9,205	595	9,800
Other income	95,284	-	95,284
Loss on abandoned fixed assets	(215,345)	-	(215,345)
Gain (loss) on disposal of fixed assets	16,733	(256)	16,477
Interest expense	(249,964)	(60,557)	(310,521)
Total nonoperating revenues	<u>(344,087)</u>	<u>(60,218)</u>	<u>(404,305)</u>
Loss before contributions	<u>(1,219,269)</u>	<u>(718,551)</u>	<u>(1,937,820)</u>
Capital grants received	<u>262,912</u>	<u>-</u>	<u>262,912</u>
Change in net position	<u>(956,357)</u>	<u>(718,551)</u>	<u>(1,674,908)</u>
Total net position on December 31, 2017	<u>18,352,779</u>	<u>9,140,441</u>	<u>27,493,220</u>
Total net position on December 31, 2018	<u>\$ 17,396,422</u>	<u>\$ 8,421,890</u>	<u>\$ 25,818,312</u>

See Independent Auditor's Report

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF CASH FLOWS
DECEMBER 31, 2018

	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash received from customers	\$ 3,230,326	\$ 920,006	\$ 4,150,332
Operating expenses:			
General and administrative	(237,600)	(14,960)	(252,560)
Payroll and related expenses	(1,651,210)	(427,711)	(2,078,921)
Repairs and maintenance	-	(165,590)	(165,590)
Other supplies and expenses	(793,818)	(385,105)	(1,178,923)
Net cash provided (used) by operating activities	<u>547,698</u>	<u>(73,360)</u>	<u>474,338</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(1,646,075)	(480)	(1,646,555)
Proceeds from sale of capital assets	16,642	-	16,642
Principal paid on debt	(334,014)	(50,000)	(384,014)
Proceeds from debt borrowings	1,292,355	-	1,292,355
Interest paid on debt	(244,843)	(60,557)	(305,400)
Capital contributions	<u>262,912</u>	<u>-</u>	<u>262,912</u>
Net cash used in capital and related financing activities	<u>(653,023)</u>	<u>(111,037)</u>	<u>(764,060)</u>
Cash Flows from Investing Activities			
Interest income from investments	9,798	595	10,393
Other cash receipts	<u>95,284</u>	<u>-</u>	<u>95,284</u>
Net cash provided by investing activities	<u>105,082</u>	<u>595</u>	<u>105,677</u>
Net decrease in cash and cash equivalents	(243)	(183,802)	(184,045)
Cash and cash equivalents, at beginning of year	<u>1,252,872</u>	<u>58,515</u>	<u>1,311,387</u>
Cash and cash equivalents, at end of year	<u>\$ 1,066,608</u>	<u>\$ 60,734</u>	<u>\$ 1,127,342</u>
Unrestricted cash and cash equivalents	\$ 384,430	\$ 21,161	\$ 405,591
Restricted cash and cash equivalents	<u>682,178</u>	<u>39,573</u>	<u>721,751</u>
Total cash and cash equivalents, at end of year	<u>\$ 1,066,608</u>	<u>\$ 60,734</u>	<u>\$ 1,127,342</u>

See Independent Auditor's Report.

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
DECEMBER 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (875,182)	\$ (658,333)	\$ (1,533,515)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	1,037,757	537,322	1,575,079
Bad debt expense	4,200	4,660	8,860
Change in assets and liabilities:			
(Increase) in receivables	(10,903)	(11,629)	(22,532)
Decrease (increase) in inventories	43,514	(615)	42,899
Increase in prepaids	4,291	-	4,291
Decrease (increase) in accounts payable	23,428	(25,489)	(2,061)
Increase in customer deposits	1,143	-	1,143
(Decrease) increase in accrued liabilities	25,965	3,153	29,118
Increase in net OPEB obligation	37,623	5,273	42,896
Increase in net pension obligation	255,862	72,298	328,160
Net cash provided (used) by operating activities	<u>\$ 547,698</u>	<u>\$ (73,360)</u>	<u>\$ 474,338</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, 2018

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

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

	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.045494%	0.043724%
District's proportionate share of the net OPEB liability	\$ 807,737	\$ 879,002
District's covered employee payroll	\$ 1,127,618	\$ 1,064,570
District's share of the net OPEB liability as a percentage of its covered employee payroll	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	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, 2018

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

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, 2017:

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

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities of the McCreary County Water District, Water and Sewer Divisions (the District), as of and for the year ended December 31, 2018, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated October 25, 2019.

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
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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

October 25, 2019