

McCreary County Water District
Water and Sewer Divisions
* * * *
Independent Auditor's Report
and Combined Financial Statements
December 31, 2021 and 2020

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

Table of Contents	Page
Management's Discussion and Analysis	1-4
Independent Auditor's Report	5-8
Basic Financial Statements:	
Combined Statements of Net Position	9
Combined Statements of Revenues, Expenses, and Changes in Net Position	10
Combined Statements of Cash Flows	11-12
Notes to Basic Financial Statements	13-34
Supplemental Information:	
Combining Statement of Net Position	35
Combining Statement of Revenues, Expenses, and Changes in Net Position	36
Combining Statement of Cash Flows	37-38
Schedule of Proportionate Share of Net Pension Liability	39
Schedule of Pension Contributions	40
Schedule of Proportionate Share of Net OPEB Liability	41
Schedule of OPEB Contributions	42
Schedule of Changes in Benefits and Assumptions	43-44
Schedule of Expenditures of Federal Awards	45
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	46-47
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.	48-50
Schedule of Findings and Questioned Costs	51

**McCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

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, 2021 and 2020. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ended December 31, 2021, total operating and non-operating revenues (including capital contributions) totaled \$6,354,066 and operating expenses and non-operating expenses amounted to \$6,392,141, creating a decrease in net position of \$38,075. At year end, net position totaled \$23,821,807 of which \$25,815,439 (net of related debt) was invested in capital assets, and \$785,061 was restricted for debt service and construction. This left a net amount of \$(2,778,693) of unrestricted net position.

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

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, 2021 AND 2020**

Condensed Comparative Financial Analysis:

McCreary County Water District
Water and Sewer Divisions
Statements of Net Position-Summary
December 31, 2021 and 2020

Assets	<u>2021</u>	<u>2020</u>
Total Current Assets	\$ 2,093,559	\$ 1,427,483
Total Restricted Assets	785,061	762,719
Net Capital Assets	<u>39,013,065</u>	<u>37,529,370</u>
Total Assets	<u>\$ 41,891,685</u>	<u>\$ 39,719,572</u>
Deferred Outflows of Resources	<u>795,075</u>	<u>853,226</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 42,686,760</u>	<u>\$ 40,572,798</u>
Liabilities		
Total Current Liabilities	\$ 1,646,721	\$ 1,028,772
Total Non-current Liabilities	16,326,249	15,332,354
Total Liabilities	<u>\$ 17,972,970</u>	<u>\$ 16,361,126</u>
Deferred Inflows of Resources	<u>\$ 891,983</u>	<u>\$ 351,790</u>
Net Position:		
Invested in capital assets, net of related debt	\$ 25,815,439	\$ 25,930,223
Restricted for debt service and construction	785,061	762,719
Unrestricted	<u>(2,778,693)</u>	<u>(2,833,060)</u>
Total Net Position	<u>\$ 23,821,807</u>	<u>\$ 23,859,882</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 42,686,760</u>	<u>\$ 40,572,798</u>

The largest portion per year (108.37% and 108.68% respectively) of the utility's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The utility used these capital assets to provide services to citizens and consumers. Consequently, these assets are not available for future spending.

Restricted net position per year (3.30% and 3.20% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (-11.67% and -11.88% 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, 2021 AND 2020**

McCreary County Water District
Water and Sewer Divisions
Statements of Operations
For the Years Ended December 31, 2021 and 2020

	2021	2020
Total operating revenues	\$ 5,775,377	\$ 5,131,605
Total operating expenses	6,088,858	5,849,876
Operating loss	(313,481)	(718,271)
Net non-operating expenses	(125,244)	(194,958)
Loss before capital contributions	(438,725)	(913,229)
Capital contributions	400,650	492,521
Change in net position	(38,075)	(420,708)
Beginning of year	23,859,882	24,280,590
End of year	\$ 23,821,807	\$ 23,859,882

During 2021, net position decreased by \$38,075 and consisted of an operating loss of (\$313,481), net non-operating revenue and expenses of (\$125,244) and capital contributions of \$400,650.

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

Capital Asset Changes

At December 31, 2021, the Utility had invested \$39,013,065 in capital assets, net of accumulated depreciation. This amount represents a net increase of \$1,483,695 from the previous year. The net increase consisted of additions to capital assets of \$3,091,284 less depreciation expense of \$1,607,589. The additions were mainly financed with proceeds of debt borrowings.

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

Debt Administration

At December 31, 2021, the utility had total debt equal to \$13,197,626 which consisted of \$12,545,236 of bonds outstanding, \$652,390 of notes payable, and capital leases of \$0. At the beginning of the year total debt equaled \$11,599,147. The increase in debt of \$1,598,479 was due to additions to debt of \$3,620,045 less scheduled principal payments of \$2,021,566.

**McCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

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

Other Matters

During 2015, the District implemented GASB No. 68, Accounting and Financial Reporting for Pensions. This standard requires cost sharing governments to report a net pension liability, pension expense and pension related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the governments in the plan; therefore, included in long term liabilities is a net pension liability of \$2,819,754 for 2021, and \$3,202,344 for 2020.

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 \$846,493 for 2021 and \$1,007,893 for 2020.

Request for Information

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2021 and 2020 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as

well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 39 through 44 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements,*

Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining statements of net position, revenues, expenses and changes in net position, and cash flows, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2022, 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 the effectiveness of the McCreary County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCreary County Water District's internal control over financial reporting and compliance.

Faulkner, King & Wenz, PSC

September 7, 2022

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF NET POSITION
DECEMBER 31, 2021 and 2020**

ASSETS

	2021	2020
Current assets:		
Cash and cash equivalents	\$ 805,662	\$ 329,956
Unbilled revenues	370,185	327,260
Accounts receivable	643,735	550,858
Other receivables	96,764	53,678
Inventory	176,081	164,599
Prepaid expenses	1,132	1,132
Total current assets	2,093,559	1,427,483
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	344,279	380,833
Investments	440,782	381,886
Capital assets:		
Utility plant	65,426,776	63,361,437
Less accumulated depreciation	(28,798,194)	(27,687,028)
Construction in process	2,384,483	1,854,961
Total non-current assets	39,798,126	38,292,089
Deferred Outflows of Resources:		
Deferred outflows - OPEB	466,717	443,463
Deferred outflows - pension	328,358	409,763
Total deferred outflows	795,075	853,226
Total assets and deferred outflows of resources	\$ 42,686,760	\$ 40,572,798

LIABILITIES

Current liabilities:		
Accounts payable	\$ 605,811	\$ 166,527
Accrued interest	143,040	123,281
Taxes payable	23,567	24,440
Other accrued liabilities	296,808	197,983
Customer deposits	39,871	39,511
Notes payable - current	74,493	71,665
Revenue bonds - current portion	463,131	405,365
Total current liabilities	1,646,721	1,028,772
Non-current liabilities:		
Revenue bonds - net current portion	12,082,105	10,469,728
Notes payable	577,897	652,389
Net OPEB liability	846,493	1,007,893
Net pension liability	2,819,754	3,202,344
Total non-current liabilities	16,326,249	15,332,354
Total liabilities	17,972,970	16,361,126
Deferred Inflows of Resources		
Deferred inflows - OPEB	427,643	225,244
Deferred inflows - pension	464,340	126,546
Total deferred inflows	891,983	351,790

NET POSITION

Invested in capital assets, net of related debt	25,815,439	25,930,223
Restricted for debt service and construction	785,061	762,719
Unrestricted	(2,778,693)	(2,833,060)
Total net position	23,821,807	23,859,882
Total liabilities, deferred inflows of resources and net position	\$ 42,686,760	\$ 40,572,798

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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Operating revenues		
Residential sales	\$ 3,059,984	\$ 2,884,899
Commercial sales	474,008	450,965
Industrial sales	95,334	100,777
Governmental sales	1,746,227	1,492,531
Other sales	399,824	202,433
Total operating revenues	<u>5,775,377</u>	<u>5,131,605</u>
Operating expenses		
General and administrative costs	209,949	379,685
Payroll and related expenses	2,765,783	2,483,862
Repairs and maintenance	275,042	251,626
Other supplies and expenses	1,230,495	1,108,792
Depreciation and amortization	1,607,589	1,625,911
Total operating expenses	<u>6,088,858</u>	<u>5,849,876</u>
Operating loss	<u>(313,481)</u>	<u>(718,271)</u>
Nonoperating revenues (expenses)		
Interest income	6,272	11,982
Other income	164,736	108,769
Gain on sale of fixed assets	7,031	-
Interest expense	(303,283)	(315,709)
Net nonoperating expenses	<u>(125,244)</u>	<u>(194,958)</u>
Loss before contributions	(438,725)	(913,229)
Capital grants received	<u>400,650</u>	<u>492,521</u>
Change in net position	(38,075)	(420,708)
Total net position beginning of year	<u>23,859,882</u>	<u>24,280,590</u>
Total net position end of year	<u>\$ 23,821,807</u>	<u>\$ 23,859,882</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, 2021 AND 2020**

	2021	2020
Cash Flows from Operating Activities		
Cash received from customers	\$ 5,596,489	\$ 4,920,521
Operating expenses:		
General and administrative	(209,949)	(379,685)
Payroll and related expenses	(2,711,429)	(2,196,565)
Repairs and maintenance	(275,042)	(251,626)
Other supplies and expenses	(704,381)	(1,286,759)
Net cash provided by operating activities	1,695,688	805,886
 Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(3,091,284)	(1,402,621)
Proceeds from sale of capital assets	7,031	-
Principal paid on debt	(2,021,566)	(2,724,971)
Proceeds from debt borrowings	3,620,045	3,159,000
Interest paid on debt	(283,524)	(324,096)
Capital contributions	400,650	492,521
Net cash used in capital and related financing activities	(1,368,648)	(800,167)
 Cash Flows from Investing Activities		
Interest income from investments	6,272	11,982
Other cash receipts	164,736	108,769
Net cash provided by investing activities	171,008	120,751
 Net increase in cash, cash equivalents, and restricted cash	498,048	126,470
 Cash, cash equivalents, and restricted cash at beginning of year	1,092,675	966,205
 Cash, cash equivalents, and restricted cash at end of year	\$ 1,590,723	\$ 1,092,675
 Unrestricted cash and cash equivalents	\$ 805,662	\$ 329,956
Restricted cash and cash equivalents	785,061	762,719
 Total cash and cash equivalents, at end of year	\$ 1,590,723	\$ 1,092,675

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, 2021 AND 2020**

	2021	2020
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (313,481)	\$ (718,271)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,607,589	1,625,911
Bad debt expense	-	66,160
Change in assets and liabilities:		
Increase in receivables	(178,888)	(277,244)
Increase in inventories	(11,482)	(30,435)
Decrease in prepaids	-	16,424
Increase (decrease) in accounts payable	439,284	(159,818)
Increase in customer deposits	360	2,126
Increase (decrease) in accrued expenses	97,952	(6,264)
Increase in net OPEB obligation	17,745	44,974
Increase in net pension obligation	36,609	242,323
 Net cash provided by operating activities	 \$ 1,695,688	 \$ 805,886

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

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, 2021 and 2020**

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, 2021 and 2020**

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 \$266,723 and \$284,960 for the years ended December 31, 2021 and 2020 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 or construction of capital assets are recorded as other income, per GASB 33. The District received \$400,650 and \$492,521 in grants for the years ended December 31, 2021 and 2020 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 \$1,607,589 and \$1,625,911 for the years ended December 31, 2021 and 2020 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, 2021 and 2020**

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 was equivalent to the reported values. All deposits are checking or savings accounts. The carrying amount of the District's bank deposits was \$1,148,141 and \$709,789 for the years ended December 31, 2021 and 2020 respectively and the respective bank balances totaled \$1,304,224 and \$841,089 respectively for the years then ended. The bank balances are covered by \$251,723 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, 2021, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 149,007	\$ -	\$ 800,938	\$ 949,945	\$ 803,862
Depreciation funds	-		-	-	-
Restricted deposits					
Debt service and Depreciation funds	<u>102,716</u>	<u>-</u>	<u>251,563</u>	<u>354,279</u>	<u>344,279</u>
Total deposits	<u>\$ 251,723</u>	<u>\$ -</u>	<u>\$ 1,052,501</u>	<u>\$ 1,304,224</u>	<u>\$ 1,148,141</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits at December 31, 2020, categorized by level of risk, are:

	Risk Category			Bank	Book
	1	2	3	Balance	Value
Unrestricted deposits					
Operating accounts	\$ 151,879	\$ -	\$ 308,377	\$ 460,256	\$ 328,956
Depreciation funds	-	-	-	-	-
Restricted deposits					
Debt service and Depreciation funds	<u>101,450</u>	<u>-</u>	<u>279,383</u>	<u>380,833</u>	<u>380,833</u>
 Total deposits	 <u>\$ 253,329</u>	 <u>\$ -</u>	 <u>\$ 587,760</u>	 <u>\$ 841,089</u>	 <u>\$ 709,789</u>

The District also had \$1,800 and \$1,000 of petty cash on hand for the years ended December 31, 2021 and 2020 respectively.

Investments

At December 31, 2021 and 2020, 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, 2021 categorized by level of risk, are:

	Risk Category			Book	Fair
	1	2	3	Value	Value
Treasury MM Fund	<u>\$440,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$440,782</u>	<u>\$440,782</u>
 Total investments	 <u>\$440,782</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$440,782</u>	 <u>\$440,782</u>

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments at December 31, 2020, categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	\$381,886	\$ -	\$ -	\$381,886	\$381,886
Total investments	<u>\$381,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$381,886</u>	<u>\$381,886</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, 2021 and 2020 are:

A schedule of restricted assets at December 31, 2021 are:

	Investments		Total
	Cash	at cost	
Debt service and Depreciation funds	\$ 344,279	\$ -	\$ 344,279
Construction funds	-	-	-
Treasury MM fund	<u>-</u>	<u>440,782</u>	<u>440,782</u>
Total restricted assets	<u>\$ 344,279</u>	<u>\$ 440,782</u>	<u>\$ 785,061</u>

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

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

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 4 - CAPITAL ASSETS

The following represents the activity for the year ended December 31, 2021:

	Balance 12/31/2020	Additions	Disposals	Transfers	Balance 12/31/2021
Operating fixed assets:					
Land	\$ 430,269	\$ -	\$ -	\$ -	\$ 430,269
Buildings & Improvements	22,469,303	-	-	-	22,469,303
Treatment equipment	3,346,273	189,625	(52,868)	-	3,483,030
Distributions	23,919,169	408	(443,555)	2,273,592	25,749,614
Services/meters	3,767,956	76,735	-	-	3,844,691
Other equipment	<u>9,428,467</u>	<u>21,402</u>	<u>-</u>	<u>-</u>	<u>9,449,869</u>
	63,361,437	288,170	(496,423)	2,273,592	65,426,776
Accumulated depreciation	<u>(27,687,028)</u>	<u>(1,607,589)</u>	<u>496,423</u>	<u>-</u>	<u>(28,798,194)</u>
	35,674,409	(1,319,419)	-	2,273,592	36,628,582
Construction in progress	<u>1,854,961</u>	<u>2,803,114</u>	<u>-</u>	<u>(2,273,592)</u>	<u>2,384,483</u>
Utility plant, net	<u>\$37,529,370</u>	<u>\$ 1,483,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$39,013,065</u>

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

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

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

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, 2021.

The District's bonded indebtedness and other long-term debt at December 31, 2021 and 2020, are summarized as follows:

<u>Debt Description</u>	<u>Rate</u>	<u>Original Issue</u>	<u>Principal O/S 2021</u>	<u>Principal O/S 2020</u>
Water District				
BB&T	3.945%	797,355	587,390	659,054
RD Series 2013 D	Variable	1,415,000	660,000	760,000
RD 2013 Series A	1.875%	635,000	554,000	566,500
RD Series 2020E	Variable	495,000	495,000	-
RD Series 2020E	Variable	984,537	984,537	-
RD Series 2020E-1	2.65%	524,132	524,132	-
RD Series 2012 D	Variable	3,205,000	2,395,000	2,500,000
RD Series 2012 D-1	Variable	1,935,000	1,142,500	1,166,500
RD Series 2015	2.500%	1,158,000	1,091,000	1,108,500
RD Series 2020E	Variable	1,535,306	-	1,535,306
RD Series 2020 A	1.375%	1,324,000	1,304,000	1,324,000
KIA CD2-01	1.000%	* 1,510,000	353,228	429,593
Sewer District				
KIA A20-047	.50%	* 1,616,376	1,616,376	-
RD Series 2020E	Variable	234,694	225,463	234,694
United Cumberland	3.16%	65,000	65,000	65,000
RD Series 2012 D	Variable	<u>1,595,000</u>	<u>1,200,000</u>	<u>1,250,000</u>
		19,029,400	13,197,626	11,599,147
Less current maturities			<u>(537,624)</u>	<u>(477,030)</u>
Total long-term debt			<u>\$12,660,002</u>	<u>\$11,122,117</u>

* The original issue of the KIA CD2-01 loan is \$1,510,000. As of December 31, 2021, the District had borrowed \$1,474,999 of the original amount.

* The original issue of the KIA A20-047 loan is \$2,794,500. As of December 31, 2021, the District had borrowed \$1,616,376 of the original amount.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The District's bonded indebtedness and other long-term debt at December 31, 2021 is detailed as follows:

	Principal Balance 12/31/2020	Borrowings	Principal Payments	Principal Balance 12/31/2021	Current	Long-Term
Water District						
RD Series 2020E	\$ -	\$ 495,000	\$ -	\$ 495,000	\$ 10,000	\$ 485,000
RD Series 2020E	-	984,537	-	984,537	28,478	956,059
RD Series 2020E-1	-	524,132	-	524,132	-	524,132
2012 Series D	2,500,000	-	105,000	2,395,000	110,000	2,285,000
2012 Series D1	1,166,500	-	24,000	1,142,500	25,000	1,117,500
2013 Series D	566,500	-	12,500	554,000	12,500	541,500
2013 Series A	760,000	-	100,000	660,000	105,000	555,000
2015 Series	1,108,500	-	17,500	1,091,000	18,000	1,073,000
KIA F04-03	429,593	-	76,365	353,228	77,131	276,097
BB&T	659,054	-	71,664	587,390	74,493	512,897
RD Series 2020	1,535,306	-	1,535,306	-	-	-
RD Series 2020	1,324,000	-	20,000	1,304,000	20,500	1,283,500
Sewer District						
KIA A20-047	-	1,616,376	-	1,616,376	-	1,616,376
Series 2020E	234,694	-	9,231	225,463	6,522	218,941
UC Bank	65,000	-	-	65,000	-	65,000
2012 Series D	1,250,000	-	50,000	1,200,000	50,000	1,150,000
	<u>\$11,599,147</u>	<u>\$ 3,620,045</u>	<u>\$2,021,566</u>	<u>\$13,197,626</u>	<u>\$ 537,624</u>	<u>\$12,660,002</u>

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

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

The long-term debt service requirements are as follows:

Year	Principal		Interest		Total	
	Water	Sewer	Water	Sewer	Water	Sewer
2022	\$ 481,102	\$ 56,522	\$ 240,961	\$ 54,726	\$ 722,063	\$ 111,248
2023	999,692	116,797	228,280	65,733	1,227,972	182,530
2024	485,935	124,495	215,412	56,112	701,347	180,607
2025	504,606	124,748	201,761	53,656	706,367	178,404
2026	465,521	130,934	187,420	51,035	652,941	181,969
2027-2031	1,735,792	644,502	750,884	209,676	2,486,676	854,178
2032-2036	1,480,985	693,217	513,241	126,562	1,994,226	819,779
2037-2041	1,389,327	539,598	311,239	47,545	1,700,566	587,143
2042-2046	985,053	327,768	180,792	15,219	1,165,845	342,987
2047-2051	877,774	290,116	98,108	5,514	975,882	295,630
2052-2056	490,000	58,142	32,563	218	522,563	58,360
2057-2060	195,000	-	5,445	-	200,445	-
	<u>\$10,090,787</u>	<u>\$3,106,839</u>	<u>\$2,966,106</u>	<u>\$ 685,996</u>	<u>\$13,056,893</u>	<u>\$3,792,835</u>

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

2020 Series E-1 - McCreary County Water and Sewer District Waterworks Revenue Bond, dated March 23, 2021, due in one annual installment in 2022, bearing an interest rate of 2.65%.

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

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

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

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

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

KIA CD2-01 - 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.

KIA A20-047 - As of December 31, 2021 the District had drawn \$1,616,376 on a KIA loan secured by a pledge of revenues. The loan bears an interest rate of .50% with a life of thirty years maturing in 2052.

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

United Cumberland Bank - Installment loan dated July 20, 2020, due in annual installments through January 26, 2026, bearing an interest rate of 3.16%.

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

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

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 6 - NET POSITION

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

The balance of capital investments represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by the District, net of outstanding debt. The balance was \$25,815,439 and \$25,930,223 for the years ended December 31, 2021 and 2020 respectively.

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

	<u>2021</u>	<u>2020</u>
Construction	\$ -0-	\$ -0-
Depreciation and Debt Service	344,279	380,833
Treasury MM Fund	<u>440,782</u>	<u>381,886</u>
Total Restricted	<u>\$ 785,061</u>	<u>\$ 762,719</u>

The District has a balance of \$(2,778,693) and \$(2,833,060) for unrestricted net position at December 31, 2021 and 2020 respectively.

NOTE 7 - COMPLIANCE WITH BOND ORDINANCES

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

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

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

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

The balance in the depreciation and debt service funds as of December 31, 2021 and 2020 equaled \$344,279 and \$380,833 respectively. The required balance is \$139,700 and \$124,040 respectively.

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

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - FAIR VALUE MEASUREMENTS

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

Level 1 Fair Value Measurements

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

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

Assets at Fair Value as of December 31, 2021

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$440,782</u>	-	-	<u>\$440,782</u>
Total assets fair value	<u>\$440,782</u>	-	-	<u>\$440,782</u>

Assets at Fair Value as of December 31, 2020

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

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

NOTE 10 - PENSION PLAN

McCreary County Water District (the District) is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute Sections 78.782 and 61.645, the Kentucky Public Pensions Authority (KPPA) oversees the administration and operation of the personnel and accounting systems for the County Employees Retirement System Nonhazardous Pension Plan (CERS Nonhazardous), which is administered by KPPA. 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 CERS. 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 - Participating employers are required to contribute an actuarially determined rate for CERS pension contributions, per Kentucky Revised Statute (KRS) Section 78.545(33). The CERS Board of Trustees establishes the employer contribution rate each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year. For the periods January 1, 2021 through June 30, 2021, and July 1, 2021 through December 31, 2021, the District contributed 19.30% and 21.17%, respectively, of each employee's creditable compensation (covered payroll) to the CERS Nonhazardous Pension Plan, which is equal to the actuarially determined rate set by the Board for each period. The District contributed for the years ended December 31, 2021 and 2020 \$240,149 and \$211,472, respectively, or 100% of the required contribution to the pension plan. Administrative costs of the KPPA are financed through employer contributions and investment earnings.

Plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 and before January 1, 2014 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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. 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.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - As of December 31, 2021, the District reported a liability of \$2,819,754 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020, rolled-forward from the valuation date to June 30, 2021 using generally accepted actuarial principles.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 10 - PENSION PLAN (CONTINUED)

The District's proportion of the net pension liability was determined using the District's actual contributions for the year ended June 30, 2021. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2021, the District's proportion was 0.044226 percent, which is equal to its proportion measured as of June 30, 2021. For the year ended December 31, 2020, the District's proportion was 0.041752 percent, which is equal to its proportion measured as of June 30, 2020.

For the year ended December 31, 2021, the District recognized pension expense of \$276,757. As of December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Effects of changes of assumptions	\$ 37,844	\$ -
District contributions subsequent to the measurement date	135,391	-
Difference between projected and actual earnings on plan investments	-	375,826
Changes in proportion and differences between District contributions and proportionate share of contributions	122,744	61,146
Differences between expected and actual liability experience	32,379	27,368
Total	\$ 328,358	\$ 464,340

The \$135,391 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, 2022. 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,	
2022	\$ (36,143)
2023	(37,166)
2024	(80,373)
2025	(117,691)

Actuarial Assumptions - The total pension liability, net pension liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles. There have been no actuarial assumption or method changes since June 30, 2020. Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or because of duty-related disability. The total pension liability as of June 30, 2021, is determined using these updated benefit provisions.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

NOTE 10 - PENSION PLAN (CONTINUED)

The actuarial assumptions for CERS nonhazardous employees are as follows:

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

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

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2021 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty		
Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

Discount Rate - The discount rate used to measure the total pension liability was 6.25 percent as of June 30, 2021. The projection of cash flows used to determine the discount rate assumes that each fund receives the employer required contributions each future year as determined by the current funding policy established in statute, as amended by House Bill 362 (passed in 2018) over the remaining 30 years (closed) 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, 2021 and 2020**

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%	\$ 3,616,469
Current discount rate	6.25%	\$ 2,819,754
1% increase	7.25%	\$ 2,160,492

Payable to the Pension Plan - As of December 31, 2021 and 2020, the District reported a payable of \$35,295 and \$26,864, 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 Statute Section 78.782 and 61.645, the Kentucky Public Pensions Authority (KPPA) oversees the administration and operation of the personnel and accounting systems for the County Employees Retirement System (CERS). McCreary County Water District (the 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 CERS, KERS, 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 CERS. 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 Nonhazardous Insurance Fund consisted of the following as of June 30, 2020, the date of the latest actuarial valuation:

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

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

Membership Status

Inactive plan members currently receiving benefits:	37,037
Inactive plan members entitled to but not yet receiving benefits:	29,208
Active plan members:	80,745
Total plan members:	<u>146,990</u>

Contributions - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), the CERS Board of Trustees establishes employer and member contribution rates each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year.

For the periods January 1, 2021 through June 30, 2021, and July 1, 2021 through December 31, 2021, the District contributed 4.76% and 5.78%, respectively, of each employee's covered payroll to the insurance fund, which is equal to the actuarially determined rate set by the Board. The District contributed for the years ended December 31, 2021 and 2020 \$62,802 and \$52,156, respectively, or 100% of the required contribution to the insurance fund. Administrative costs of the KPPA 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.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - As of December 31, 2021, the District reported a liability of \$846,493 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020, rolled-forward to June 30, 2021, 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, 2021. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2021, the District's proportion was 0.044216 percent, which is equal to its proportion measured as of June 30, 2021. For the year ended December 31, 2020, the District's proportion was 0.041740 percent, which is equal to its proportion measured as of June 30, 2020.

For the year ended December 31, 2021, the District recognized OPEB expense of \$65,475. As of December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Effects of changes of assumptions	\$ 224,421	\$ 787
District contributions subsequent to the measurement date (including implicit subsidy)	64,818	-
Differences between projected and actual earnings on plan investments	-	132,422
Differences between expected and actual liability experience	133,111	252,735
Changes in proportion and differences between District contributions and proportionate share of contributions	44,367	41,699
Total	\$ 466,717	\$ 427,643

The \$64,818 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date of \$36,965 and the December 31, 2021 implicit subsidy of \$27,853, will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2022. 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,		
2022	\$	20,547
2023		430
2024		(4,104)
2025		(42,617)

Implicit Subsidy - The fully insured premiums KPPA pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after the measurement date. McCreary County Water District's implicit subsidy for the years ended December 31, 2021 and 2020 was \$27,853 and \$24,736, respectively.

**MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

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

Actuarial Assumptions - The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles. The actuarial assumptions for CERS nonhazardous employees are as follows:

Inflation	2.30%
Payroll Growth Rate	2.00%, CERS Nonhazardous
Salary Increase	3.30-10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

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

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2021 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

Senate Bill 249, passed during the 2020 legislative session, changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that were payable starting July 1, 2020.

Senate Bill 169, passed during the 2021 legislative session, increased the disability benefits for certain qualifying members who became "totally and permanently disabled" in the line of duty or as a result of duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions.

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

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

Discount Rate - The single discount rate of 5.20% for CERS Nonhazardous 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 1.92% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. The projection of cash flows used to determine the discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming each participating employer contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028, for the CERS plans.

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	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty		
Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

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 5.20 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 (4.20 percent) or 1-percentage-point higher (6.20 percent) than the current rate.

Discount rate	District's proportionate share of net OPEB liability
1% decrease	4.20% \$ 1,162,229
Current discount rate	5.20% \$ 846,493
1% increase	6.20% \$ 587,380

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

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

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

	District's proportionate share of net OPEB liability
1% decrease	\$ 609,375
Current healthcare cost trend rate	\$ 846,493
1% increase	\$ 1,132,699

Payable to the OPEB Plan - As of December 31, 2021 and 2020, the District reported a payable of \$9,636 and \$6,626, respectively, for the outstanding amount of contributions to the insurance plan required for the years then ended. The payable only includes the insurance portion of the contribution. Please refer to Note 10 for the amount due to the pension plan.

NOTE 12 - SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and the financial markets. The continued spread of the disease represents a risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts the District will depend upon future developments, which are highly uncertain and cannot be predicted. As a result, the District has not yet determined the impact this disruption may have on its financial statements for the year ending December 31, 2022.

Subsequent events were evaluated through September 7, 2022, which is the date the financial statements were available to be issued.

Supplemental Information

**McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	McCreary County			Total
	Water	Sewer	Eliminations	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 641,334	\$ 164,328	\$ -	\$ 805,662
Unbilled revenues	274,873	95,312	-	370,185
Accounts receivable, net	453,224	190,511	-	643,735
Other receivables	5,278	91,486	-	96,764
Due from associated division	1,581,838	-	(1,581,838)	-
Inventory	135,342	40,739	-	176,081
Prepaid expenses	1,132	-	-	1,132
Total current assets	<u>3,093,021</u>	<u>582,376</u>	<u>(1,581,838)</u>	<u>2,093,559</u>
Non-current assets:				
Restricted cash and cash equivalents	264,574	79,705	-	344,279
Investments	440,782	-	-	440,782
Capital assets:				
Utility plant	46,056,191	19,370,585	-	65,426,776
Less accumulated depreciation	(19,655,184)	(9,143,010)	-	(28,798,194)
Construction in process	536,209	1,848,274	-	2,384,483
Total non-current assets	<u>27,642,572</u>	<u>12,155,554</u>	<u>-</u>	<u>39,798,126</u>
Deferred outflows of resources:				
Deferred outflows - other post-employment benefits	382,121	84,596	-	466,717
Deferred outflows - pension	266,204	62,154	-	328,358
Total deferred outflows	<u>648,325</u>	<u>146,750</u>	<u>-</u>	<u>795,075</u>
Total assets and deferred outflows of resources	<u>\$ 31,383,918</u>	<u>\$ 12,884,680</u>	<u>\$ (1,581,838)</u>	<u>\$ 42,686,760</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 246,880	\$ 358,931	\$ -	\$ 605,811
Accrued interest	114,900	28,140	-	143,040
Due to associated division	-	1,581,838	(1,581,838)	-
Taxes payable	20,458	3,109	-	23,567
Other accrued liabilities	227,811	68,997	-	296,808
Customer deposits	39,871	-	-	39,871
Notes payable - current	74,493	-	-	74,493
Revenue bonds - current portion	406,609	56,522	-	463,131
Total current liabilities	<u>1,131,022</u>	<u>2,097,537</u>	<u>(1,581,838)</u>	<u>1,646,721</u>
Non-current liabilities:				
Revenue bonds - net current portion	9,096,788	2,985,317	-	12,082,105
Notes payable	512,897	65,000	-	577,897
Net other post-employment benefits liability	685,531	160,962	-	846,493
Net pension liability	2,290,395	529,359	-	2,819,754
Total non-current liabilities	<u>12,585,611</u>	<u>3,740,638</u>	<u>-</u>	<u>16,326,249</u>
Deferred inflows of resources:				
Deferred inflows - other post-employment benefits	351,916	75,727	-	427,643
Deferred inflows - pension	391,374	72,966	-	464,340
Total deferred inflows	<u>743,290</u>	<u>148,693</u>	<u>-</u>	<u>891,983</u>
Total liabilities and deferred inflows of resources	<u>\$ 14,459,923</u>	<u>\$ 5,986,868</u>	<u>\$ (1,581,838)</u>	<u>\$ 18,864,953</u>
NET POSITION				
Invested in capital assets, net of related debt	\$ 16,846,429	\$ 8,969,010	-	\$ 25,815,439
Restricted for debt service and construction	705,356	79,705	-	785,061
Unrestricted	(627,790)	(2,150,903)	-	(2,778,693)
Total net position	<u>16,923,995</u>	<u>6,897,812</u>	<u>-</u>	<u>23,821,807</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 31,383,918</u>	<u>\$ 12,884,680</u>	<u>\$ (1,581,838)</u>	<u>\$ 42,686,760</u>

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, 2021

	McCreary County		Total
	Water	Sewer	
Operating revenues			
Residential sales	\$ 2,666,715	\$ 393,269	\$ 3,059,984
Commercial sales	273,334	200,674	474,008
Industrial sales	49,051	46,283	95,334
Governmental sales	1,020,190	726,037	1,746,227
Other sales and fees	293,275	106,549	399,824
Total operating revenues	<u>4,302,565</u>	<u>1,472,812</u>	<u>5,775,377</u>
Operating expenses			
General and administrative costs	173,140	36,809	209,949
Payroll and contractual services	2,142,695	623,088	2,765,783
Repairs and maintenance	-	275,042	275,042
Other supplies and expenses	888,861	341,634	1,230,495
Depreciation	1,070,301	537,288	1,607,589
Total operating expenses	<u>4,274,997</u>	<u>1,813,861</u>	<u>6,088,858</u>
Operating income (loss)	<u>27,568</u>	<u>(341,049)</u>	<u>(313,481)</u>
Nonoperating revenues (expenses)			
Interest income	5,095	1,177	6,272
Other income	139,536	25,200	164,736
Loss on abandoned fixed assets	-	-	-
Gain (loss) on disposal of fixed assets	7,031	-	7,031
Interest expense	(248,634)	(54,649)	(303,283)
Total nonoperating revenues	<u>(96,972)</u>	<u>(28,272)</u>	<u>(125,244)</u>
Loss before contributions	(69,404)	(369,321)	(438,725)
Capital grants received	<u>400,650</u>	<u>-</u>	<u>400,650</u>
Change in net position	331,246	(369,321)	(38,075)
Total net position on December 31, 2020	<u>16,592,749</u>	<u>7,267,133</u>	<u>23,859,882</u>
Total net position on December 31, 2021	<u>\$ 16,923,995</u>	<u>\$ 6,897,812</u>	<u>\$ 23,821,807</u>

See Independent Auditor's Report

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF CASH FLOWS
DECEMBER 31, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash received from customers	\$ 4,094,473	\$ 1,502,016	\$ 5,596,489
Operating expenses:			
General and administrative	(173,140)	(36,809)	(209,949)
Payroll and related expenses	(2,096,846)	(614,583)	(2,711,429)
Repairs and maintenance	-	(275,042)	(275,042)
Other supplies and expenses	(690,649)	(13,732)	(704,381)
Net cash provided by operating activities	<u>1,133,838</u>	<u>561,850</u>	<u>1,695,688</u>
 Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(1,072,948)	(2,018,336)	(3,091,284)
Proceeds from sale of capital assets	-	7,031	7,031
Principal paid on debt	(1,962,335)	(59,231)	(2,021,566)
Proceeds from debt borrowings	2,003,669	1,616,376	3,620,045
Interest paid on debt	(228,875)	(54,649)	(283,524)
Capital contributions	400,650	-	400,650
Net cash used in capital and related financing activities	<u>(859,839)</u>	<u>(508,809)</u>	<u>(1,368,648)</u>
 Cash Flows from Investing Activities			
Interest income from investments	5,095	1,177	6,272
Other cash receipts	139,536	25,200	164,736
Net cash provided by investing activities	<u>144,631</u>	<u>26,377</u>	<u>171,008</u>
 Net increase in cash and cash equivalents	418,630	79,418	498,048
Cash and cash equivalents, at beginning of year	<u>927,652</u>	<u>165,023</u>	<u>1,092,675</u>
Cash and cash equivalents, at end of year	<u>\$ 1,346,282</u>	<u>\$ 244,441</u>	<u>\$ 1,590,723</u>
 Unrestricted cash and cash equivalents	\$ 641,334	\$ 164,328	\$ 805,662
Restricted cash and cash equivalents	<u>705,356</u>	<u>79,705</u>	<u>785,061</u>
Total cash and cash equivalents, at end of year	<u>\$ 1,346,690</u>	<u>\$ 244,033</u>	<u>\$ 1,590,723</u>

See Independent Auditor's Report.

MCCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
DECEMBER 31, 2021

	Water	Sewer	Total
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income (loss)	\$ 27,568	\$ (341,049)	\$ (313,481)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	1,070,301	537,288	1,607,589
Change in assets and liabilities:			
Increase in receivables	(38,270)	(140,618)	(178,888)
(Increase) decrease in inventories	(21,252)	9,770	(11,482)
Increase in accounts payable	123,456	315,828	439,284
Increase in customer deposits	360	-	360
Increase in accrued liabilities	81,463	16,489	97,952
Increase in net OPEB obligation	11,544	6,201	17,745
Increase in net pension obligation	34,305	2,304	36,609
Net cash provided by operating activities	\$ 1,289,475	\$ 406,213	\$ 1,695,688

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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
District's proportion of the net pension liability	0.044226%	0.041752%	0.044240%	0.045494%
District's proportionate share of the net pension liability	\$ 2,819,754	\$ 3,202,344	\$ 3,111,418	\$ 2,770,845
District's covered employee payroll	\$ 1,129,658	\$ 1,069,480	\$ 1,115,926	\$ 1,127,618
District's share of the net pension liability as a percentage of its covered employee payroll	249.61%	299.43%	278.82%	245.73%
Plan fiduciary net position as a percentage of the total pension liability	57.33%	47.81%	50.45%	53.54%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.043724%	0.043507%	0.040430%	0.042430%
District's proportionate share of the net pension liability	\$ 2,559,300	\$ 2,142,121	\$ 1,738,371	\$ 1,376,595
District's covered employee payroll	\$ 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	240.41%	209.10%	183.01%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required employer contributions	\$ 240,149	\$ 211,472	\$ 200,597	\$ 167,189
Contributions relative to contractually required employer contributions	<u>240,149</u>	<u>211,472</u>	<u>200,597</u>	<u>167,189</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,182,327	\$ 1,091,554	\$ 1,129,480	\$ 1,088,383
Employer contributions as a percentage of covered-employee payroll	20.31%	19.37%	17.76%	15.36%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required employer contributions	\$ 160,610	\$ 134,208	\$ 126,892	\$ 127,882
Contributions relative to contractually required employer contributions	<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>
District's covered employee payroll	\$ 1,128,886	\$ 1,015,760	\$ 1,009,246	\$ 965,456
Employer contributions as a percentage of covered-employee payroll	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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>
District's proportion of the net OPEB liability	0.044216%	0.041740%	0.044229%
District's proportionate share of the net OPEB liability	\$ 846,493	\$ 1,007,893	\$ 743,912
District's covered employee payroll	\$ 1,129,658	\$ 1,069,480	\$ 1,115,926
District's share of the net OPEB liability as a percentage of its covered employee payroll	74.93%	94.24%	66.66%
Plan fiduciary net position as a percentage of the total OPEB liability	62.91%	51.67%	60.44%
	<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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required employer contributions	\$ 62,802	\$ 52,156	\$ 56,587
Contributions relative to contractually required employer contributions	<u>62,802</u>	<u>52,156</u>	<u>56,587</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,182,327	\$ 1,091,554	\$ 1,129,480
Employer contributions as a percentage of covered-employee payroll	5.31%	4.78%	5.01%
	<u>2018</u>	<u>2017</u>	
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, 2021**

County Employee Retirement System

Changes of benefit terms

During the **2021** legislative session, House Bill 169 was enacted, which updated the disability benefits for certain qualifying members who became "totally and permanently disabled" in the line of duty or as a result of a duty related disability.

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

There have been no actuarial assumption or method changes for the year ending **June 30, 2021**.

There have been no actuarial assumption or method changes for the year ending **June 30, 2020**.

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

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

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

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

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

McCreary County Water District
Schedule of Changes in Benefits and Assumptions (continued)
As of and for the Year Ended December 31, 2021

County Employee Retirement System

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

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

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

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

McCreary County Water District
 Schedule of Expenditures of Federal Awards
 December 31, 2021

			Total Federal Expenditures
Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Program/Award	FYE 12/31/21
Rural Development	10.760	Rural Development Stearns to Smithtown Water Line Replacement Loan / Grant	\$ 1,168,515 Major
USDA	14.228	US Department of Housing & Urban Development Marsh Creek to HWY 92 Water Line Replacement Block Grant	<u>444,169 Major</u>
Total			<u>\$ 1,612,684</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of McCreary County Water District under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of McCreary County Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of McCreary County Water District.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Indirect Cost Rates

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

Note 4. Pass-Through Awards

There were no awards passed through to recipients.

FAULKNER, KING & WENZ, PSC
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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, 2021, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated September 7, 2022.

Report on 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) as a basis for designing 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.

Report on 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 financial statements. 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

September 7, 2022

FAULKNER, KING & WENZ, PSC
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Major Federal Program

Opinion on Each Major Federal Program

We have audited McCreary County Water District, Water and Sewer divisions, compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended December 31, 2021. McCreary County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, McCreary County Water District, Water and Sewer divisions complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of McCreary County Water District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of McCreary County Water District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to McCreary County Water District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on McCreary County Water District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about McCreary County Water District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding McCreary County Water District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of McCreary County Water District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of McCreary County Water District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Faulkner, King & Wenz, PSC

September 7, 2022

McCREARY COUNTY WASTER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

Summary of Auditor's Results

Financial Statements:

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

Internal control over financial reporting:

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

Federal Awards:

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

Internal control over major federal programs:

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

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

Identification of major federal program(s):

CFDA Numbers	<u>Name of Federal Program or Cluster</u>
10.760	Rural Development
14.228	US Department of Housing & Urban Development

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

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