

MEADE COUNTY WATER DISTRICT
Brandenburg, Kentucky

FINANCIAL STATEMENTS
December 31, 2020

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Meade County Water District
Brandenburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Meade County Water District (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Meade County Water District, as of December 31, 2020, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 22-25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 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 the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
August 16, 2021

MEADE COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2020

ASSETS

Current assets

Cash and cash equivalents	\$ 65,531
Accounts receivable, net	155,897
Unbilled receivables	126,250
Prepaid insurance	12,776
Inventory	116,165
Total current assets	<u>476,619</u>

Noncurrent assets

Restricted cash and cash equivalents	311,325
Regulatory asset - CERS OPEB	311,092
Regulatory asset - CERS Pension	1,149,775
Construction in progress	99,723
Property, plant and equipment, net	14,019,556
Total noncurrent assets	<u>15,891,471</u>

Total assets	<u>16,368,090</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - pension	233,108
Deferred outflows - OPEB	203,619
Total deferred outflows of resources	<u>436,727</u>
Total assets and deferred outflows of resources	<u>\$ 16,804,817</u>

LIABILITIES

Current liabilities

Accounts payable	\$ 171,820
Payroll and other taxes payable	14,132
Accrued vacation	18,911
Accrued interest	77,367
Other accrued liabilities	8,426
Customer deposits	55,320
Current portion of notes and bonds payable	194,953
Total current liabilities	<u>540,929</u>

Noncurrent liabilities

Net pension liability	1,378,898
Net OPEB liability	433,993
Notes and bonds payable, net of current portion	4,554,303
Total noncurrent liabilities	<u>6,367,194</u>
Total liabilities	<u>6,908,123</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pension	3,985
Deferred inflows - OPEB	80,718
Total deferred inflows of resources	<u>84,703</u>

NET POSITION

Net investment in capital assets	9,370,023
Restricted net position	311,325
Unrestricted	130,643
Total net position	<u>9,811,991</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 16,804,817</u>

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

MEADE COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2020

OPERATING INCOME

Water sales	\$ 2,529,463
Other revenue	<u>33,747</u>
Total operating income	<u>2,563,210</u>

OPERATING EXPENSES

Water purchased	959,540
Power purchased	47,418
Meter labor and expense	375,646
Repairs and maintenance	52,908
General and administrative expense	702,459
Depreciation	<u>712,601</u>
Total operating expense	<u>2,850,572</u>

OPERATING (LOSS) (287,362)

Non-operating income (expense)

Interest income	740
Other income	2,016
Interest expense	<u>(174,477)</u>

Total non-operating income (expense) (171,721)

(LOSS) BEFORE CAPITAL CONTRIBUTIONS (459,083)

Capital contributions

Tap fees	<u>120,690</u>
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Change in net position (338,393)

Net position, beginning of year as restated 10,150,384

NET POSITION, END OF YEAR \$ 9,811,991

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

MEADE COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 2,546,974
Payments to suppliers	(1,049,831)
Payments for employee services and benefits	<u>(1,120,887)</u>

Net cash provided by operating activities	<u>376,256</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments on debt	(187,621)
Acquisition and construction of capital assets	(275,641)
Other income	1,462
Capital contributions	120,690
Interest on long-term debt	<u>(173,506)</u>

Net cash (used in) capital and related financing activities	<u>(514,616)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds on sale of capital assets	556
Interest income	<u>740</u>

Net cash provided by investing activities	<u>1,296</u>
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NET (DECREASE) IN CASH	(137,064)
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Cash, beginning of year, as restated	<u>513,920</u>
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CASH, END OF YEAR	<u><u>\$ 376,856</u></u>
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Reconciliation of operating (loss) to net cash provided by operating activities:

Operating (loss)	\$ (287,362)
Noncash items included in operating income:	
Depreciation	712,601
Changes in assets and liabilities:	
(Increase) decrease in accounts receivables	(28,869)
(Increase) decrease in unbilled receivables	11,178
(Increase) decrease in prepaid expenses	580
(Increase) decrease in inventory	(48,656)
Increase (decrease) in accounts payable	5,203
Increase (decrease) in payroll and other taxes payable	7,893
Increase (decrease) in customer deposits	1,455
Increase (decrease) in accrued vacation	<u>2,233</u>

Net cash provided by operating activities	<u><u>\$ 376,256</u></u>
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Supplemental disclosure of cash flow information

Components of cash on the Statement of Net Position	
Cash	\$ 65,531
Restricted cash	<u>311,325</u>
	<u><u>\$ 376,856</u></u>

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

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

1. ORGANIZATION AND ACCOUNTING POLICIES

Meade County Water District (the District) was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Meade County, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in Water Utility Accounting and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

Reporting Entity

The District's financial statements include the operations of all entities for which the District exercises oversight responsibilities. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The only entity included in these financial statements are the general operations of Meade County Water District.

Basic Financial Statements

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

Basis of Accounting

Basis of accounting refers to the point at which revenues or 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 proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Amounts

Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2020, accounts receivable was stated net of an allowance for uncollectible accounts of \$36,000. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.

Inventory – The District's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance, repairs and new water lines. The inventory is stated at the lower of cost (first-in, first-out method) or market.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (continued)

Capital assets - Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-75
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-40

Restricted Assets - Restricted assets consist of demand deposit savings accounts.

Cash Equivalents - For purposes of the statement of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

Accrued Vacation - Accumulated vacation is recorded as an expense and a liability as the benefit is earned.

Claims and Judgments - These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Capital Contributions - Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

Long-term Obligations - Obligations are reported at face value, net of applicable premiums and discounts.

Defining Operating Revenues and Expenses - The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (continued)

Use of Restricted Resources - When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.

Net Position - Net position is divided into three components:

- a. Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.
- b. Restricted net position - consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
- c. Unrestricted - all other net position is reported in this category.

Use of Estimates - The preparation of financial assets in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Pension and OPEB - For purposes of measuring the net pension and OPEB liabilities, deferred outflows/inflows of resources, and regulatory assets, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB. Accordingly, the District recognizes the actuarially determined contribution as the current year pension and OPEB expense.

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued Statement 87, Leases. This statement is effective for periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. This statement is effective for periods beginning after December 15, 2020. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (continued)

In May 2019, the GASB issued Statement 91, Conduit Debt Obligations. This statement is effective for periods beginning after December 15, 2021. Management believes there will be no material impact on the District's financial statements once implemented.

In January 2020, the GASB issued Statement 92, Omnibus 2020. This statement is effective for periods beginning after June 15, 2021, except for the provisions applicable to Statement 87 and Implementation Guide 2019-3 which are effective upon issuance. Management believes there will be no material impact on the District's financial statements once implemented.

In March 2020, the GASB issued Statement 93, Replacement of Interbank Offered Rates. The requirements of this Statement, except for paragraphs 11 b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11 b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter. Management believes there will be no material impact on the District's financial statements once implemented.

In March 2020, the GASB issued Statement 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Management believes there will be no material impact on the District's financial statements once implemented.

In May 2020, the GASB issued Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The requirements of this Statement are effective immediately. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2020, the GASB issued Statement 96, Subscription-Based Information Technology Arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Management believes there will be no material impact on the District's financial statements once implemented.

In June 2020, the GASB issued Statement 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans an Amendment of GASB Statements No. 14 and No. 84, and Supersession of GASB Statement No. 32. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. Management believes there will be no material impact on the District's financial statements once implemented.

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through August 16, 2021 which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2020, have not been evaluated by the District.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

2. DEPOSITS

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest. The District's deposits and investments at December 31, 2020 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

3. RESTRICTED CASH

The District has restricted cash for customer deposits, reserve and depreciation, construction and debt service. The following schedule represents restricted cash at December 31, 2020:

Restricted Balances

Customer Deposits	\$ 6,738
Construction	3,620
Debt Service	164,693
Reserve & Depreciation	<u>136,274</u>
Totals	<u>\$ 311,325</u>

4. CAPITAL ASSETS

The following is a summary of capital asset activity during the year ended December 31, 2020:

	Balance 12/31/2019 (as restated)	Additions	Disposals	Balance 12/31/2020
Capital assets not depreciated:				
Construction in progress	\$ -	\$ 99,723	\$ -	\$ 99,723
Land and Land Rights	<u>75,043</u>	<u>-</u>	<u>-</u>	<u>75,043</u>
Totals	<u>75,043</u>	<u>99,723</u>	<u>-</u>	<u>174,766</u>
Capital assets being depreciated:				
Property, plant and equipment	<u>23,380,529</u>	<u>175,918</u>	<u>(14,969)</u>	<u>23,541,208</u>
Less: accumulated depreciation	<u>8,899,063</u>	<u>712,601</u>	<u>(14,969)</u>	<u>9,596,695</u>
Depreciable assets, net	<u>14,481,196</u>	<u>(536,683)</u>	<u>-</u>	<u>13,944,513</u>
Total capital assets, net	<u>\$ 14,556,239</u>	<u>\$ (436,960)</u>	<u>\$ -</u>	<u>\$ 14,119,279</u>

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

5. LONG-TERM DEBT

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, 2020:

Bonds and Notes

USDA, Rural Development Bond - \$415,000, dated 2/4/93 with payments through 2032, bearing interest at a rate of 5.00%.	\$ 246,000
USDA, Rural Development Bond - \$2,150,000, dated 12/20/10 with payments through 2049, bearing interest at a rate of 4.125%.	1,912,500
USDA, Rural Development Bond - \$2,000,000, dated 7/19/18 with payments through 2056, bearing interest at a rate of 2.75%.	1,938,000
Kentucky Infrastructure Authority Loan - \$165,000 dated 10/22/03 with payments through 2022, bearing interest at a rate of 3.00%.	15,000
Kentucky Infrastructure Authority Loan - \$394,760 dated 12/1/04 with payments through 2024, bearing interest at a rate of 3.00%.	98,829
Kentucky Infrastructure Authority Loan - \$753,447 dated 12/1/09 with payments through 2029, bearing interest at a rate of 3.00%.	394,927
Kentucky Rural Water Finance Corp. Bond - \$605,000, dated 6/27/01 with payments through 2024, bearing interest at 5.27%.	<u>144,000</u>
Totals	4,749,256
Less: current portion of debt	<u>(194,953)</u>
Long-term debt	<u><u>\$ 4,554,303</u></u>

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

5. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize bonds outstanding as of December 31, 2020 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2021	\$ 122,500	\$ 149,658	\$ 272,158
2022	129,000	144,325	273,325
2023	135,000	138,713	273,713
2024	93,500	134,058	227,558
2025	93,000	130,176	223,176
2026-2030	530,000	593,525	1,123,525
2031-2035	561,500	487,177	1,048,677
2036-2040	609,500	386,141	995,641
2041-2045	736,500	266,554	1,003,054
2046-2050	763,500	123,650	887,150
2051-2055	383,500	38,369	421,869
2056	<u>83,000</u>	<u>1,141</u>	<u>84,141</u>
	<u>\$ 4,240,500</u>	<u>\$ 2,593,487</u>	<u>\$ 6,833,987</u>

The annual requirements to amortize direct borrowing notes outstanding as of December 31, 2020 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2021	\$ 72,453	\$ 16,261	\$ 88,714
2022	69,342	13,740	83,082
2023	66,286	11,392	77,677
2024	68,289	9,221	77,510
2025	43,751	7,200	50,951
2026-2030	<u>188,635</u>	<u>14,032</u>	<u>202,668</u>
	<u>\$ 508,756</u>	<u>\$ 71,846</u>	<u>\$ 580,602</u>

The following is a summary of changes in long-term debt and net pension and OPEB liability for the year ended December 31, 2020:

	December 31, 2019 (as restated)	Additions	Retirements	December 31, 2020	Due Within One Year
Net pension liability	\$ 1,164,321	\$ 214,577	\$ -	\$ 1,378,898	\$ -
Net OPEB liability	278,380	155,613	-	433,993	-
Bonds payable	4,357,500	-	(117,000)	4,240,500	122,500
Notes payable	<u>579,377</u>	<u>-</u>	<u>(70,621)</u>	<u>508,756</u>	<u>72,453</u>
Total	<u>\$ 6,379,578</u>	<u>\$ 370,190</u>	<u>\$ (187,621)</u>	<u>\$ 6,562,147</u>	<u>\$ 194,953</u>

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

6. COMPLIANCE WITH BOND RESOLUTIONS

The bond resolutions require the District to maintain certain reserves as follows:

Depreciation Reserve Fund – This reserve is to receive a monthly transfer of \$1,740 until a balance of \$208,800 is accumulated for all bond issues. In addition, this reserve is to receive all proceeds collected from potential customers to aid construction of extensions and any insurance proceeds from property damage. Funds may be used only for the purpose of paying the cost of unusual or extraordinary maintenance and repairs not included in the budget and cost of constructing extensions or improvements to the system. At December 31, 2020, the required balance in this reserve was \$138,720, and the Reserve Fund balance totaled \$1,030.

Maintenance and Replacement Reserve – This reserve is to receive an amount equal to ten percent of the amount of loan payments until the amount on deposit is equal to five percent of the original principal amount of the loan. Funds may be used for extraordinary maintenance expenses related to the water tank painting project or for the costs of replacing worn or obsolete portions of the project. At December 31, 2020, the required balance in this reserve was \$148,000, and the Maintenance and Replacement Reserve totaled \$49,032.

Bond and Interest Sinking Fund – This reserve is to receive a monthly transfer of 1/12 of the next interest due and 1/12 of the next principal due. In addition, this reserve is to receive any excess revenues at the close of each year after provision of anticipated operating expenses for a two-month period. This reserve can only be used to pay debt service on the bond issues. At December 31, 2020, the required balance in this reserve was \$150,013, and the Bond and Interest Sinking Fund balances totaled \$250,905.

7. RETIREMENT PLAN

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

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

Contributions – For the year ended December 31, 2020, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2020, participating employers contributed 24.06% of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 8. Plan members contributed 19.30% to the pension trust for non-hazardous job classifications for the year ended December 31, 2020. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

7. RETIREMENT PLAN (CONTINUED)

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

The District contributed \$91,620 for the year ended December 31, 2020, or 100% of the required contribution.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2020, the District reported a liability for its proportionate share of the total net pension liability of \$1,378,898. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the District's proportion was 0.017978 percent, which was an increase of 0.001423 percent from its proportion measured as of June 30, 2019.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

7. RETIREMENT PLAN (CONTINUED)

For the year ended December 31, 2020, the District recognized pension expense of \$226,810. This expense was offset by increasing a regulatory asset balance described further in Note 12. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 34,385	\$ -
Changes of assumptions	53,844	-
Net difference between projected and actual earnings on Plan investments	34,506	-
Changes in proportion and differences between District contributions and proportionate share of contributions	63,667	3,985
District contributions subsequent to the measurement date	<u>46,706</u>	<u>-</u>
Total	<u>\$ 233,108</u>	<u>\$ 3,985</u>

The \$46,706 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2020 will be recognized in pension expense as follows:

Year ending December 31,		
2021	\$	81,461
2022	\$	66,263
2023	\$	20,833
2024	\$	13,860

Actuarial Assumptions – The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was 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.

The actuarial assumption used in the June 30, 2020 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

7. RETIREMENT PLAN (CONTINUED)

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2020, the target allocation and best estimates of nominal 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
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.25%

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining closed 24-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following 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:

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.25%	\$ 1,700,481
Current discount rate	6.25%	\$ 1,378,898
1% increase	7.25%	\$ 1,112,615

Payable to the Pension Plan – At December 31, 2020, the District reported a payable of \$14,132 for the outstanding amount of contributions to the pension plan required for the year ended. The payable includes both the pension and insurance contribution allocation.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2020, the employer's contribution was 4.76% to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2020, the District contributed \$22,597, or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2020, the District reported a liability for its proportionate share of the net OPEB liability of \$433,993. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and was rolled forward using generally accepted actuarial procedures.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2020 was 0.017973 percent, which was an increase of 0.001422 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the District recognized OPEB expense of \$61,312. This expense was offset by increasing a regulatory asset balance described further in Note 12. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 72,511	\$ 72,568
Changes of assumptions	75,489	459
Net difference between projected and actual earnings on Plan investments	14,425	-
Changes in proportion and differences between District contributions and proportionate share of contributions	19,024	7,691
District contributions subsequent to the measurement date	<u>22,170</u>	<u>-</u>
Total	<u>\$ 203,619</u>	<u>\$ 80,718</u>

The \$22,170 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 OPEB liability in the year ending December 31, 2021. This includes an adjustment of \$10,651 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,

2021	\$ 26,324
2022	\$ 30,593
2023	\$ 22,412
2024	\$ 22,525
2025	\$ (1,123)

Actuarial Assumptions – The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post – 65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

The actuarial assumption used in the June 30, 2020 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.25%

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2020 was 5.34% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2020, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index". However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate 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 or 1-percentage-point higher than the current rate:

	Discount rate	Proportionate share of net OPEB liability
1% decrease	4.34%	\$ 557,554
Current discount rate	5.34%	\$ 433,993
1% increase	6.34%	\$ 332,509

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the District's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate share of net OPEB liability
1% decrease	\$ 336,019
Current trend rate	\$ 433,993
1% increase	\$ 552,887

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

9. CAPITAL CONTRIBUTIONS

The District received \$120,690 of tap fees for the year ended December 31, 2020.

10. 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 worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three years.

11. ECONOMIC DEPENDENCY

The District obtains a majority of its revenues from customers in Meade County, Kentucky. An economic downturn in the area could have a negative impact on the financial condition of the District.

12. ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

The District is subject to the provisions of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulating entities. Accordingly, the District records these future economic benefits and obligations as regulatory assets and regulatory liabilities.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

12. ACCOUNTING FOR THE EFFECTS OF RATE REGULATION (CONTINUED)

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for the District to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
2. The regulated rates must be designed to recover the specific entities cost of providing the regulated services;
3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that the rates set at levels that will recover the entities' cost can be charged to and collected from customers.

Based on the District's management evaluation of the three criteria discussed above in relation to its operations, and the effects of competition on its ability to recover its costs, the District believes that GASB Statement No. 62 continues to apply. As of December 31, 2020, the District had regulatory assets of \$1,460,867, which equates to the net impact of pension and OPEB expense on the balance sheet.

13. COVID-19 PANDEMIC

During 2020, various restrictions were placed on utilities in the state of Kentucky in response to the COVID-19 pandemic. These restrictions included the cessation of utility shutoffs and the charging of penalties due to nonpayment of bills. As a result of these orders and the impact of COVID-19 on the District's customers, there has been an increase in delinquent billings as of December 31, 2020. The District is working to establish payment plans with customers who have delinquent bills in an attempt to ensure continuous service and the collection of past due balances. The District has increased the allowance for doubtful accounts to \$36,000 as of December 31, 2020, as an estimate of the total amount of accounts receivable that will not be collectible.

14. RESTATEMENT OF NET POSITION

The beginning net position of the District has been restated to correct errors identified in prior year account balances. The effect of this restatement on net position is as follows:

Net position, beginning of year	\$ 10,145,586
Adjustment to add sinking fund cash account	52,243
Adjustment to correct deposit liability	25,804
Adjustment to capitalize previously expensed fixed assets	77,116
Adjustment to remove sick leave accrual	29,130
Adjustment to record prior year water purchases payable	(166,617)
Adjustment to remove bond issuance cost	<u>(12,878)</u>
Net position, beginning of year, as restated	<u>\$10,150,384</u>

REQUIRED SUPPLEMENTARY INFORMATION

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Six Fiscal Years**

Reporting Year End (Measurement Date)	December 31, 2015 (June 30, 2015)	December 31, 2016 (June 30, 2016)	December 31, 2017 (June 30, 2017)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)
District's proportion of the net pension liability	0.018106%	0.018260%	0.017207%	0.016584%	0.016551%	0.017978%
District's proportionate share of the net pension liability (asset)	\$ 778,456	\$ 899,077	\$ 1,007,179	\$ 1,010,077	\$ 1,164,321	\$ 1,378,898
District's covered employee payroll	\$ 396,057	\$ 408,472	\$ 448,477	\$ 429,772	\$ 446,856	\$ 460,508
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	196.55%	220.11%	224.58%	235.03%	260.56%	299.43%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.30%	53.54%	50.45%	47.81%

Notes:

The above schedule will present 10 years of historical data, once available.

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - PENSION
Last Six Calendar Years**

	2015	2016	2017	2018	2019	2020
Contractually required employer contribution	\$ 50,497	\$ 50,732	\$ 62,563	\$ 62,231	\$ 78,225	\$ 91,620
Contributions relative to contractually required employer contribution	<u>50,497</u>	<u>50,732</u>	<u>62,563</u>	<u>62,231</u>	<u>78,225</u>	<u>91,620</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 396,057	\$ 408,472	\$ 448,477	\$ 429,772	\$ 439,022	\$ 474,719
Employer contributions as a percentage of covered-employee payroll	12.75%	12.42%	13.95%	14.48%	17.82%	19.30%

Notes:

The above schedule will present 10 years of historical data, once available.

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Three Fiscal Years**

Reporting Year End (Measurement Date)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)
District's proportion of the net OPEB liability	0.016584%	0.016551%	0.017973%
District's proportionate share of the net OPEB liability (asset)	\$ 294,441	\$ 287,380	\$ 433,993
District's covered employee payroll	\$ 429,772	\$ 444,856	\$ 446,856
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	68.51%	64.60%	0.97121444
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%	51.67%

Notes:

The above schedule will present 10 years of historical data, once available.

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - OPEB
Last Six Calendar Years**

	2015	2016	2017	2018	2019	2020
Contractually required employer contribution	\$ 19,486	\$ 18,953	\$ 21,213	\$ 20,199	\$ 21,945	\$ 22,597
Contributions relative to contractually required employer contribution	<u>19,486</u>	<u>18,953</u>	<u>21,213</u>	<u>20,199</u>	<u>21,945</u>	<u>22,597</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered employee payroll	 \$ 396,057	 \$ 408,472	 \$ 448,477	 \$ 429,772	 \$ 439,022	 \$ 474,719
Employer contributions as a percentage of covered-employee payroll	4.92%	4.64%	4.73%	4.70%	5.00%	4.76%

Notes:

The above schedule will present 10 years of historical data, once available.

MEADE COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2020

1. GENERAL INFORMATION

Contributions

Contractually required employer contributions reported on the Schedule of Contributions - Pensions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of Contributions - OPEB.

Payroll

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Proportionate Share of the Net OPEB Liability is for the corresponding measurement date of the net liabilities and differs from the District's calendar year payroll as reported on the Schedule of Contributions for Pension and OPEB.

2. CHANGES OF ASSUMPTIONS

December 31, 2020 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

December 31, 2019 – Pension and OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

December 31, 2018 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

December 31, 2017 – Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

December 31, 2016 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

**MEADE COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2020**

2. CHANGES OF ASSUMPTIONS (CONTINUED)

December 31, 2015 – Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.



**INDEPENDENT AUDITORS' 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**

The Board of Commissioners
Meade County Water District
Brandenburg, Kentucky

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 financial statements of Meade County Water District (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 16, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiencies described as items 2020-001, 2020-002, 2020-003, 2020-004 and 2020-005 in the accompanying schedule of findings and response to be material weaknesses.

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. We consider the deficiencies described as items 2020-006 and 2020-007 in the accompany schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Meade County Water District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
August 16, 2021

**MEADE COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2020**

2020-001 – Internal Control Over Financial Reporting (Recurring) (Material Weakness)

Criteria: The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition: Management engaged the auditor to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

Cause: The District lacks personnel with the expertise to prepare cash to accrual adjustments and draft the financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

Effect: Management engaged the auditor to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements on the accrual basis of accounting.

Response: The District is not opposed to retaining a consultant to help with financial statement preparation. However, we want to get our accounting procedures updated and improved and some training to assist us in this preparation.

2020-002 – Internal Control Over Period-end Financial Reporting (Material Weakness)

Criteria: The District is required to have internal controls over the period-end financial reporting process that enable the District to record and process year-end journal entries to produce financial records that are in accordance with generally accepted accounting principles.

Condition: During our audit, we identified material misstatements that were not identified by the District's internal controls over financial reporting.

Cause: The District failed to provide proper oversight over period-end financial reporting, which resulted in misstated accounting records prior to performance of the audit.

Effect: The District relied on auditor prepared accounting adjustments to ensure the financial records were properly stated in accordance with generally accepted accounting principles. Material adjustments were necessary to properly record capital assets, inventory, accounts payable, accounts receivable, customer deposits, debt and related income and expense. The District reviewed, approved and accepted responsibility for the accounting adjustments as the auditor cannot be a component of the District's internal controls.

Recommendation: We recommend management review the period-end financial reporting process and implement an additional analytical review and analysis of year end balances prior to the start of the audit. This additional oversight of the year-end financial records should ensure that any accounting errors are detected and corrected prior to the audit.

Response: The District agrees we need to review our period-end records to have them in better order for audits. The District is optimistic that better accounting and inventory practices throughout the year and monthly closeout reviews will be of great benefit.

**MEADE COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2020**

2020-003 – Segregation of Duties (Recurring) (Material Weakness)

Criteria: The District should have proper segregation of duties or compensating controls to properly safeguard assets from misappropriation. The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In addition, proper segregation of duties should include oversight of accounting activity by individuals with knowledge of internal controls and accounting regulations, who were not involved in the original transaction.

Condition: For the majority of the year, the District had one employee who was responsible for collecting cash receipts, posting receipts to the general ledger and preparing bank deposits and reconciliations. The District also failed to provide sufficient compensating controls, for these incompatible duties. The District also had one individual responsible for adjusting utility bills without a secondary approval. Monthly bank reconciliations were not reviewed by an individual other than the preparer. We also noted that payroll registers were not being reviewed by an individual other than the preparer.

Cause: The District does not have sufficient segregation of duties related to cash receipts, utility billing adjustments, bank reconciliations, and payroll review. Additionally, the District did not provide adequate oversight to compensate for the lack of segregation of duties.

Effect: District personnel performed a variety of incompatible duties during 2020. These incompatible duties may have been related to unaccounted for cash receipts. During our audit, we noted that approximately \$13,000 of cash receipts reported by the District could not be traced to deposits into the District's bank accounts. The District also did not provide adequate oversight related to monthly bank reconciliations, utility billing adjustments, or payroll processing.

Recommendation: We recommend the District separate duties where possible and implement compensating controls to address the lack of segregation of duties related to cash receipts, utility billing adjustments, monthly bank reconciliations, and payroll processing. We also recommend the Board review the budget as well as any source documentation needed to compensate for any unusual variances that are identified. Management and/or a member of the Board should review monthly bank reconciliations. The District should require that cash collections be reconciled to payments posted to the utility billing system, and that deposits be prepared, by an individual who is not responsible for handling cash receipts. The District should also investigate the unaccounted for cash. The District should have an individual outside of the utility billing function review and approve monthly utility billing adjustments. Payroll registers should be reviewed by an individual other than the person who prepared payroll, including review of pay rate changes, overtime and an overall reasonableness review.

Response: The District has implemented separate duties where possible and implemented controls for two employees to count and recount deposits as well as initial each deposit. This process has been going on for the past 11 months with no issues or discrepancies in deposits. A Board member stops by nearly every month to review bills, invoices and bank statements. Management will review monthly with bookkeeper regarding financials of the District.

**MEADE COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2020**

2020-004 – Capital Asset and Inventory Accounting and Tracking (Material Weakness)

Criteria: The District is responsible for establishing and maintaining effective internal controls over the capital asset and inventory recording process.

Condition: Management does not record inventory and capital asset activity throughout the year. Additionally, management was unable to provide a listing of inventory on-hand at year end.

Cause: The District failed to track purchases and disposals of capital assets and inventory in an effective manner.

Effect: The District was initially unable to provide the auditor with supporting documentation for actual cost incurred for both inventory and capital asset additions or for the inventory used or capital assets disposed during the year which required significant additional analysis to be performed by the auditor. Multiple material audit entries were necessary to adjust inventory and capital assets to appropriate balances.

Recommendation: We recommend that the District implement policies and procedures that allow them to track inventory on hand and capital asset activity throughout the year.

Response: The District is upgrading the accounting module and will have additional training regarding the system as well as better utilize the inventory module from our software supplier. District will strive to have inventory in better order to track capital assets.

2020-005 – Journal Entry Documentation and Approval (Material Weakness)

Criteria: The District should have adequate supporting documentation for manual entries posted in their general ledger. The descriptions for posted journal entries should be recognizable and distinct from other recorded entries. In addition, journal entries should be reviewed and approved by an individual other than the individual who posted the entry.

Condition: Management was unable to provide support for several journal entries made throughout the year. Additionally, we noted that the general ledger contained several uncorrected, duplicate entries. We also noted that entries were not being reviewed and approved by a second individual.

Cause: The District failed to record appropriate and distinct descriptions for posted journal entries and failed to retain documentation that supported the purpose of the entries. The District did not require secondary approval of journal entries.

Effect: The District was unable to provide the auditor with supporting documentation for multiple entries. Management could not provide an appropriate explanation for the purpose of various entries, including entries related to unaccounted for cash in Finding 2020-003.

Recommendation: We recommend that the District include a clear description when posting journal entries to the general ledger and maintain supporting documentation for journal entries and other adjustments. In addition, journal entry documentation should include record of a secondary review and approval.

Response: The District will improve the journal entry process with the updated accounting system. Necessary training will be made available and supporting documentation will be improved.

**MEADE COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2020**

2020-006 – Payroll Processing (Significant Deficiency)

Criteria: The District should process and disburse payroll checks after the end of the pay period.

Condition: During the year, the District paid payroll one day before pay periods had ended.

Cause: The District compensated employees based on estimated payroll hours input before the end of a pay period.

Effect: The District's payroll expense does not always reflect the total hours worked within a pay period. We noted an instance where an employee was overpaid because the District overestimated the total hours that were going to be worked by that employee during the pay period.

Recommendation: We recommend the District process payroll after the pay period has ended. Management should review payroll and ensure that the processed hours reflect the time recorded on employee's timesheets.

Response: The District has been considering revamping the payroll process. This will be a good time to review our process and change to bi-weekly or bi-monthly payrolls, after the end of the current pay periods.

2020-007 – Funding Debt Reserves (Significant Deficiency)

Criteria: The District is required to make monthly transfers to their reserve accounts to be in compliance with their debt agreements.

Condition: The District has not been making the required monthly payments to their reserve accounts.

Cause: Management failed to make the monthly debt reserve payments outlined in the District's debt agreements.

Effect: The District's reserve accounts are underfunded by \$236,658 as of December 31, 2020.

Recommendation: We recommend that the District begin making monthly transfers into their reserve accounts in accordance with their debt agreement requirements. We also recommend that the District make any additional transfers necessary to ensure that all reserve balances are at the level required by their debt agreements.

Response: The District now recognizes it has not been making proper payments to reserve accounts. We will begin making these payments in the proper amounts to the accounts as soon as possible.