

**MORGAN COUNTY WATER DISTRICT**  
**AUDIT OF FINANCIAL STATEMENTS**

**For The Years Ended**

**December 31, 2019 and 2018**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Morgan County Water District  
West Liberty, Kentucky

### **Report on the Financial Statements**

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

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

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

### ***Auditor's Responsibility***

Our responsibility is to express 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 auditors consider 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 opinion.

To the Board of Directors  
Morgan County Water District  
West Liberty, Kentucky

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Morgan County Water District, as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years 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 Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of the District's Contributions, the Schedule of the District's Proportionate Share of the Net OPEB Liability, and the Schedule of the District's OPEB Contributions listed in the table of contents 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's discussion and analysis that accounting principles generally accepted in the United States of America require 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 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. 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 June 22, 2020, on our consideration of Morgan County Water 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 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 Morgan County Water District's internal control over financial reporting and compliance.

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky  
June 22, 2020

**MORGAN COUNTY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash - Unrestricted	\$ 792	\$ 3,179
Cash - Restricted	173,742	168,040
Accounts Receivable	109,430	109,430
Unbilled Receivables	59,672	59,672
Allowance for Doubtful Accts.	(13,595)	(13,595)
Prepaid Insurance	<u>7,412</u>	<u>7,412</u>
Total Current Assets	337,453	334,138
<b>NONCURRENT ASSETS</b>		
Prepaid Capital Lease		
(Net of Accumulated Amortization of \$34,211 and \$29,935)	389,153	393,429
Cash - Restricted	<u>25,336</u>	<u>41,115</u>
Total Noncurrent Assets	414,489	434,544
<b>PROPERTY AND EQUIPMENT</b>		
Water Lines	22,525,857	22,525,857
Accum. Depr. Water Lines	(6,179,278)	(5,729,181)
Office Equipment	1,099	1,099
Accum. Depr. Office Equipment	(1,099)	(1,099)
Equipment and Vehicles	512,748	512,748
Accum. Depr. Equipment and Vehicles	(394,693)	(336,367)
Land	<u>71,076</u>	<u>71,076</u>
Total Property and Equipment	<u>16,535,710</u>	<u>17,044,133</u>
<b>TOTAL ASSETS</b>	17,287,652	17,812,815
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Liabilities	90,415	108,826
OPEB Liabilities	44,310	36,350

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

**MORGAN COUNTY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accrued Interest	75,296	75,296
Accrued Expenses	129,969	126,950
Accrued Salaries	8,627	3,000
Accounts Payable-Water Purchases	42,010	35,508
Accounts Payable-Retirement	5,220	3,197
Lease Payable	25,831	27,985
Loan Payable	30,000	
Bonds Payable	<u>99,550</u>	<u>93,120</u>
Total Current Liabilities	416,503	365,056
<b>LONG-TERM LIABILITIES</b>		
Compensated Absences	8,245	10,953
Net Pension Liability	485,843	443,801
OPEB Liability	116,290	129,361
Lease Payable	60,259	83,938
Bonds Payable	<u>3,482,340</u>	<u>3,581,890</u>
	4,152,977	4,249,943
<b>OTHER LIABILITIES</b>		
Customer Deposits	<u>21,049</u>	<u>18,450</u>
<b>TOTAL LIABILITIES</b>	4,590,529	4,633,449
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Refunding Bond Premium		
(Net of Accumulated Amortization of \$8,336 and \$6,252)	43,765	45,849
Pension Liabilities	33,050	34,203
OPEB Liabilities	47,335	24,542
<b>NET POSITION:</b>		
Invested in Capital Assets, Net of Related Debt	13,213,118	13,604,780
Restricted for Debt Service	173,742	168,040
Restricted for Depreciation Reserve	501	20,229
Restricted for Construction	881	878
Unrestricted	<u>(680,544)</u>	<u>(573,979)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 12,707,698</u>	<u>\$ 13,219,948</u>

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

**MORGAN COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION**  
**For The Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES</b>		
Water Collection	\$ 1,450,309	\$ 1,410,077
Sales Tax	(3,835)	(2,909)
Utility And Local Tax	(38,636)	(43,405)
State Reimb. Relocation Projects	1,403	32,687
Tap-On Fees	39,715	29,169
Miscellaneous	<u>19,263</u>	<u>25,038</u>
Net Operating Revenues	1,468,219	1,450,657
<b>OPERATING EXPENSES</b>		
Advertising	1,286	530
Bank Charges	599	430
Depreciation	508,422	489,737
Fuel	16,601	16,139
Insurance	66,912	54,730
Miscellaneous	8,226	8,014
Office Supplies	5,275	9,967
Outside Services	32,431	33,810
Payroll Taxes	14,433	14,409
Postage	13,224	10,050
Relocation Project Expenses		34,090
Repairs & Maintenance	2,163	2,094
Leasing and Maintenance Fees	4,640	
Retirement	84,573	76,647
OPEB	12,078	17,574
Salaries	189,310	188,353
Supplies & Testing	59,931	78,133
Travel	1,029	842
Uniforms	469	176
Unemployment Insurance	256	167
Utilities and Telephone	44,766	41,901
Water Purchased	770,593	787,445
Worker's Compensation	<u>2,694</u>	<u>4,981</u>
Total Operating Expenses	<u>1,839,911</u>	<u>1,870,219</u>
<b>NET OPERATING INCOME</b>	(371,692)	(419,562)

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

**MORGAN COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION**  
**For The Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
NON OPERATING REVENUES (EXPENSES)		
Interest and Amortization Expense	(147,208)	(151,042)
Interest Income	75	101
Reimbursement of Interest Overpayment		51,229
Gain on Sale of Fixed Asset		40,486
Grant Proceeds	<u>6,575</u>	<u>668,333</u>
Total Non Operating Revenues (Expenses)	<u>(140,558)</u>	<u>609,107</u>
Change in Net Position	(512,250)	189,545
Total Net Position - Beginning	<u>13,219,948</u>	<u>13,030,403</u>
Total Net Position - Ending	<u><u>\$ 12,707,698</u></u>	<u><u>\$ 13,219,948</u></u>

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



**MORGAN COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments from Customers	\$ 1,490,311	\$ 1,447,209
State Reimb. Relocation Projects	1,403	32,687
Miscellaneous Income	19,263	25,038
Payments to Vendors	(1,009,709)	(1,228,942)
Payments for Payroll and Related Expenses	<u>(289,014)</u>	<u>(200,931)</u>
Net Cash Provided/(Used) by Operating Activities:	212,254	75,061
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Net (Deposits)/Withdrawals Customer Deposit Account	(3,948)	(638)
Net Customer Deposits (Returned)/Collected	<u>2,599</u>	<u>2,549</u>
Net Cash Provided/(Used) by Noncapital Financing Activities	(1,349)	1,911
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Interest and Amortization	(145,016)	(97,622)
Net (Deposits)/Withdrawals into or from Bond Sinking Fund	(5,703)	3,312
Net (Deposits)/Withdrawals into or from Dep. Reserve Fund	19,729	(16)
Grant Proceeds	6,575	668,333
Constructed Fixed Assets		(583,680)
Purchase of Fixed Assets		(161,338)
Proceeds from Sale of Assets		42,000
Proceeds from Borrowed Money	30,000	
Increase in Lease Payable		111,923
Reduction in Lease Payable	(25,832)	
Reduction in Bonds Payable	<u>(93,120)</u>	<u>(81,220)</u>
Net Cash Provided/(Used) by Capital and Related Financing Activities	(213,367)	(98,308)

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

**MORGAN COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest	<u>75</u>	<u>101</u>
Net Cash Provided/(Used) by Investing Activities	<u>75</u>	<u>101</u>
INCREASE/(DECREASE) IN CASH	(2,387)	(21,235)
CASH AT BEGINNING OF YEAR	<u>3,179</u>	<u>24,414</u>
CASH AT END OF YEAR	<u><u>\$ 792</u></u>	<u><u>\$ 3,179</u></u>

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

Net Operating Income	\$ (371,692)	\$ (419,562)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	508,422	489,737
Changes in Assets/Liabilities:		
Accounts Payable Retirement	2,022	355
Accounts Receivable		7,963
Accounts Payable - Construction		(84,653)
Net OBEB Liability	(13,071)	(7,845)
Net Pension Liability	42,042	44,313
Deferred Outflows	10,451	11,363
Deferred Inflows	21,640	8,708
Accrued Expenses	287	
Accounts Payable	5,008	4,079
Accounts Payable - Water Purchases	6,502	19,130
Accrued Salaries	5,627	
Compensated Absences	(2,709)	
Payroll Tax Liability	<u>(2,275)</u>	<u>1,473</u>
Net Cash Provided/Used by Operating Activities	<u><u>\$ 212,254</u></u>	<u><u>\$ 75,061</u></u>

Supplementary Information

	<u>2019</u>	<u>2018</u>
Interest Paid	\$ 145,015	\$ 148,849
Amortization of Bond Premium	<u>(2,084)</u>	<u>(2,084)</u>
Total Interest Charged to Expense	<u><u>\$ 142,931</u></u>	<u><u>\$ 146,765</u></u>

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

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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

This summary of significant accounting policies of the Morgan County Water District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Organization & Activity

The Morgan County Water District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in February 1992. The purpose of the District is to provide water service to residents of Morgan County.

Financial Reporting Entity

The District complies with GASB Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations Are Component Units." These Statements establish standards for defining and reporting on the financial reporting entity. They define component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not considered a component unit of any other governmental unit for financial reporting purposes.

The District considered all potential component units in determining what organizations should be included in its financial statements. Based on an evaluation of the established criteria, management determined that there were no component units to include in the District's financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements provide information about the District's business-type activities. The financial statements for the business-type activities are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transaction and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting," refers to when transactions or events are recorded regardless of measurement focus applied.

Because of the "businesslike" characteristics of the District's operations, the accompanying financial statements report the economic resources measurement focus and the accrual basis of accounting. The accounting objective of the "economic resources" measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District utilizes an enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

As the means for delivering services to its customers, the District utilizes an office building, infrastructure, office equipment, equipment and vehicles. To provide the resources that are necessary to pay for water services and the related support functions, the District charges its customers monthly user fees, which are based on the specific level of services that they are receiving. Because the operations of the District closely mirror those of a typical, commercial company, its accounting records reflect a similar approach for measuring its business activity.

The District's various bond resolutions or ordinances require the establishment of certain accounts, which are referred to as "funds." These required accounts are maintained as part of accounting records of the Water Fund. They include the Sinking Fund (Debt Service), Revenue Fund and Depreciation Reserve Fund (Repairs and Maintenance). These are not "funds" as the term is used in generally accepted accounting principles, but are separate "accounts" used to delineate the accounting and reporting for bond related money and repayment security requirements. The balances and activity that occur in these various accounts represent specific segments of the Water Utility enterprise fund as reported in the District's financial statements.

The enterprise fund used by the District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 they are needed.

Budgeting

The District prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. Project-length budgets, which generally encompass more than one fiscal year, are also prepared for major construction projects. Both the operating and project-length expenditure plans are prepared on the cash basis of accounting, which significantly differs from the accrual basis of accounting that the District uses in the preparation of its financial statements.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018**

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

Budgeting (Continued)

These managerial budgets that are prepared for operations each year or at the inception of a major construction project are not adopted by the Board as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 30+ days delinquent at year-end. Bills are due by the tenth of each month. It is the policy of the District to shut off water service thirty days from the billing date. Customer deposits held are applied to outstanding bills.

Accounts and Unbilled Receivables

Accounts receivable are stated at face amount. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed December 23 is for customer usage from approximately November 16 through December 15. The entire amount is considered accounts receivable as of December 31. The billing mailed on January 26 of the subsequent year is for usage from approximately December 16 through January 15. Fifty percent of this billing is considered unbilled receivables at December 31.

Deposits and Investments

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 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).

Property, Plant and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water distribution systems, sewer collection systems and similar items) are reported as a component of noncurrent assets in the basic financial statement. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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

Property, Plant and Equipment (Continued)

Depreciation is charged as an expense against operations. Capital assets of the District are depreciated using the straight-line method over their estimated useful lives in years as set forth as follows.

<u>Category</u>	<u>Life in years</u>
Buildings	10-75
Equipment and Vehicles	3-25
Water Lines	10-50
Office Equipment	3-25

The depreciation expense provided on proprietary fund assets during the years ended December 31, 2019 and 2018 are \$508,422 and \$489,737, respectively.

Capitalized Interest on Indebtedness

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. The total interest expense incurred by the District during the current fiscal year was \$142,931. Of this year's amount, \$0 was considered to be capitalized interest.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of unrestricted cash on hand, demand and savings deposits, certificates of deposit, and bank overdrafts.

Inventory and Prepaid Items

The District does not maintain an inventory of supplies. Supplies are purchased as needed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

Restricted Net Position

Some of the District's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation.

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "debt service" accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The "depreciation reserve" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements and extensions.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018**

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

Federal Income Tax

The District is exempt from federal income tax.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B - CASH AND INVESTMENTS**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2019, these requirements were met.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**NOTE C - RESTRICTIONS ON CASH**

Bond Sinking Funds

Deposits into Bond Sinking Funds are required to be made monthly in order to accumulate funds for payment of bond principle and interest. At December 31, 2019, \$171,366 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2020. The balance in these accounts at December 31, 2019 was \$173,742.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit \$1,270 per month into the account. The District had \$501 on deposit in this account for the purpose of maintaining the water system at December 31, 2019.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018**

**NOTE C - RESTRICTIONS ON CASH (Continued)**

Restricted Cash Accounts

The District is required to maintain special deposit accounts for customer deposits, construction projects, and long-term debt obligations. The following is a listing of restricted cash accounts of the District at December 31, 2019:

	2019	2018
Customer Deposit Accounts	\$ 23,954	\$ 20,006
Bond and Interest Sinking Fund	173,742	168,040
Depreciation Reserve Fund	501	20,230
Construction Account	881	879
	<hr/>	<hr/>
Total Restricted Cash Accounts	<u>\$ 199,078</u>	<u>\$ 209,155</u>

**NOTE D – CAPITAL LEASES**

The District has entered into two lease agreements as lessee with the Morgan County Fiscal Court for the use of 2,500 square feet of office space at 1009 Hwy 172, West Liberty, Kentucky 41472 and 2,500 square feet of office and storage space at 150 County Garage Road, West Liberty, Kentucky 41472. The lease agreements qualify as capital leases for accounting purposes (the terms of the leases are equal to seventy-five percent or more of the estimated economic life of the leased properties). The terms of the leases are ninety-nine years. In 2012, the District prepaid \$423,364 in full payment of all future lease payments. Amortization expense for each of the fiscal years ended December 31, 2019 and 2018 was \$4,276.

**NOTE E – BOND PREMIUM**

On November 30, 2016, the District entered into an assistance agreement with Kentucky Rural Water Association to refund six Rural Development bonds. (See Note H). The bond premium of \$52,101, a result of the refunding, will be amortized over the 25-year term of the bond at \$2,084 per year. At December 31, 2019 and 2018, the bond premium, net of accumulated amortization of \$8,336 and \$6,252, is \$43,765 and \$45,849, respectively and is classified as a deferred inflow.

**NOTE F – FAIR VALUE MEASUREMENT**

GASB Statement No. 72, Fair Value Measurement and Application requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents and accounts receivable.



**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE G - PROPERTY, PLANT AND EQUIPMENT**

The District's property, plant and equipment consist of the following:

	December 31, 2018			December 31, 2019
	Beginning			Ending
	Balance	Increases	Decreases	Balance
<b>Primary Government:</b>				
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 71,076	\$	\$	\$ 71,076
Total Capital Assets Not Being Depreciated	71,076			71,076
Capital Assets, Being Depreciated:				
Office Equipment	1,099			1,099
Vehicles and Equipment	512,748			512,748
Waterlines	22,525,857			22,525,857
Total Capital Assets Being Depreciated	23,039,704			23,039,704
Less Accumulated Depreciation for:				
Office Equipment	(1,099)			(1,099)
Vehicles and Equipment	(336,368)	(58,325)		(394,693)
Waterlines	(5,729,181)	(450,097)		(6,179,278)
Total Accumulated Depreciation	(6,066,648)	(508,422)		(6,575,070)
Total Capital Assets, Being Depreciated, Net	16,973,056	(508,422)		16,464,634
Business-Type Activities Capital Assets, Net	\$ 17,044,132	\$ (508,422)	\$ 0	\$ 16,535,710

**NOTE H - BONDS PAYABLE**

The following is a summary of the long-term debt transactions of the Morgan County Water District for the years ended December 31, 2019 and 2018:

<u>Water Utility Fund Revenue Bonds</u>	2019	2018
Bonds Payable - Beginning	\$ 3,675,010	\$ 3,756,230
Bonds Retired	(93,120)	(81,220)
Bonds Payable - Ending	\$ 3,581,890	\$ 3,675,010

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE H - BONDS PAYABLE (CONTINUED)**

Bonds payable at December 31, 2018 consists of the following issues:

\$332,000 Water revenue bonds, Series 2001, maturing through January 1, 2040, with interest at 3.25 percent	\$ 231,000
\$1,000,000 Water revenue bonds, Series 2006, maturing through January 1, 2045, with interest at 4.125 percent	829,000
\$1,446,000 Water revenue bonds, Series 2008, maturing through January 1, 2048, with interest at 4.125 percent	1,271,890
\$1,330,000 KRWFC revenue bonds, Series 2016 D, maturing through January 1, 2042 with interest varied from 3.5% - 5%	<u>1,250,000</u>
Total	<u>\$ 3,581,890</u>

Bond Collateralization Requirements

According to Bond documents, the Bonds shall be payable solely out of the gross revenues of the System. In addition to the revenue pledge securing the Bonds, a lien is created and granted in favor of the Bond owners on all contracts and on all other rights of the District pertaining to the System.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at December 31, 2019, required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash.

Bond Refunding

On November 30, 2016, the District entered an assistance agreement with Kentucky Rural Water Finance Corporation in the amount of \$1,330,000 for the purpose of refinancing and currently refunding certain obligations of the District in order to affect substantial debt service savings. The following bond series were refunded: Series A 1993, Series B 1993, Series 1995, Series 1999, Series 2002, and Series 2003. A bond premium of \$52,101 will be amortized over the 25-year term of the bond at \$2,084 per year. (See Note E.)

Sinking Fund Requirements

Sinking fund requirements are equal to the debt service requirements. The annual requirements to amortize all bonds as of December 31, 2019, according to the bond documents, including interest payments are as follows:

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE H - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2001**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2020	\$ 8,000	\$ 8,223	\$ 16,223
2021	8,000	7,963	15,963
2022	8,500	7,703	16,203
2023	8,500	7,426	15,926
2024	9,000	7,150	16,150
2025	9,000	6,858	15,858
2026	9,500	6,565	16,065
2027	10,000	6,256	16,256
2028	10,000	5,931	15,931
2029	10,500	5,606	16,106
2030	11,000	5,265	16,265
2031	11,000	4,908	15,908
2032	11,500	4,550	16,050
2033	12,000	4,176	16,176
2034	12,000	3,786	15,786
2035	13,000	3,396	16,396
2036	13,000	2,974	15,974
2037	13,500	2,551	16,051
2038	14,000	2,113	16,113
2039	14,500	1,658	16,158
2040	14,500	1,186	15,686
	<u>\$ 231,000</u>	<u>\$ 106,244</u>	<u>\$ 337,244</u>

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE H - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2006**

YEAR	PRINCIPAL	INTEREST	TOTAL
2020	\$ 18,000	\$ 36,300	\$ 54,300
2021	19,000	35,558	54,558
2022	20,000	34,774	54,774
2023	21,000	33,949	54,949
2024	22,000	33,083	55,083
2025	22,000	32,175	54,175
2026	23,000	31,268	54,268
2027	24,000	30,319	54,319
2028	25,000	29,329	54,329
2029	26,000	28,298	54,298
2030	27,000	27,225	54,225
2031	29,000	26,111	55,111
2032	30,000	24,915	54,915
2033	31,000	23,678	54,678
2034	32,000	22,399	54,399
2035	34,000	21,079	55,079
2036	35,000	19,676	54,676
2037	36,000	18,233	54,233
2038	38,000	16,748	54,748
2039	39,000	15,180	54,180
2040	41,000	13,571	54,571
2041	43,000	11,880	54,880
2042	45,000	10,106	55,106
2043	46,000	8,250	54,250
2044	48,000	6,353	54,353
2045	55,000	4,373	59,373
	<u>\$ 829,000</u>	<u>\$ 594,830</u>	<u>\$ 1,423,830</u>

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE H - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2008**

YEAR	PRINCIPAL	INTEREST	TOTAL
2020	\$ 23,550	\$ 55,155	\$ 78,705
2021	24,520	54,184	78,704
2022	25,530	53,172	78,702
2023	26,590	52,119	78,709
2024	27,680	51,022	78,702
2025	28,820	49,880	78,700
2026	30,010	48,692	78,702
2027	31,250	47,454	78,704
2028	32,540	46,165	78,705
2029	33,880	44,822	78,702
2030	35,280	43,425	78,705
2031	36,740	41,969	78,709
2032	38,250	40,454	78,704
2033	39,830	38,876	78,706
2034	41,470	37,233	78,703
2035	43,180	35,522	78,702
2036	44,960	33,741	78,701
2037	46,820	31,887	78,707
2038	48,750	29,955	78,705
2039	50,760	27,944	78,704
2040	52,850	25,851	78,701
2041	55,030	23,670	78,700
2042	57,300	21,401	78,701
2043	59,670	19,037	78,707
2044	62,130	16,575	78,705
2045	64,690	14,013	78,703
2046	67,360	11,344	78,704
2047	70,140	8,566	78,706
2048	72,310	5,672	77,982
	<u>\$ 1,271,890</u>	<u>\$ 1,009,800</u>	<u>\$ 2,281,690</u>

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE H - BONDS PAYABLE (CONTINUED)**

**KRWFC REFUNDING BOND – SERIES 2016 D**

YEAR	PRINCIPAL	FEES & INTEREST	TOTAL
2020	\$ 50,000	\$ 48,912	\$ 98,912
2021	50,000	46,912	96,912
2022	50,000	44,913	94,913
2023	55,000	42,537	97,537
2024	55,000	40,062	95,062
2025	60,000	37,762	97,762
2026	60,000	35,062	95,062
2027	65,000	32,262	97,262
2028	65,000	29,662	94,662
2029	65,000	27,062	92,062
2030	70,000	24,537	94,537
2031	70,000	22,087	92,087
2032	75,000	19,550	94,550
2033	55,000	17,207	72,207
2034	60,000	15,051	75,051
2035	40,000	13,176	53,176
2036	45,000	11,582	56,582
2037	45,000	9,894	54,894
2038	45,000	8,150	53,150
2039	45,000	6,350	51,350
2040	45,000	4,550	49,550
2041	50,000	2,650	52,650
2042	30,000	600	30,600
	<u>\$ 1,250,000</u>	<u>\$ 540,530</u>	<u>\$ 1,790,530</u>

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE H - BONDS PAYABLE (CONTINUED)**

**BONDS PAYABLE IN THE AGGREGATE**

Year Ended December 31	Scheduled Principal	Scheduled Interest
2020	\$ 99,550	\$ 148,590
2021	101,520	144,617
2022	104,030	140,562
2023	111,090	136,031
2024	113,680	131,317
2025-2029	640,500	581,428
2030-2034	728,070	447,402
2035-2039	704,470	311,809
2040-2044	649,480	165,680
2045-2048	329,500	43,968
Totals	<u>\$ 3,581,890</u>	<u>\$ 2,251,404</u>

**NOTE I – LOAN PAYABLE**

On June 1, 2019, the District entered into a promissory note with the Bank of the Mountains in the amount of \$30,000 collateralized with a Kubota excavator for the purpose of operating expenses. Principal and interest of 3% are to be paid in full on June 1, 2020. The balance of the note at December 31, 2019 was \$30,000. Payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2020	\$ 30,000	\$ 900
Totals	<u>\$ 30,000</u>	<u>\$ 900</u>

**NOTE J – LEASES**

- A. On November 17, 2017, the District entered a lease agreement for a 2017 Ford F250 Regular Cab with Enterprise FM Trust in the amount of \$27,911. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$699 includes initial charges with the monthly payments of \$461 continuing thereafter. The balance of the lease at December 31, 2019 was \$16,604. Lease payments for the remaining years are as follows:

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE J- LEASES (Continued)**

**A. (Continued)**

<u>Year Ended</u> <u>December 31</u>	<u>Scheduled</u> <u>Lease Payments</u>
2020	\$ 5,534
2021	5,534
2022	<u>5,536</u>
Totals	<u>\$ 16,604</u>

- B.** On November 28, 2017, the District entered a lease agreement for a 2017 Ford F350 Super Cab with Enterprise FM Trust in the amount of \$38,839. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$733 includes initial charges with the monthly payments of \$646 continuing thereafter. The balance of the lease at December 31, 2019 was \$23,156. Lease payments for the remaining years are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Scheduled</u> <u>Lease Payments</u>
2020	\$ 7,750
2021	7,750
2022	<u>7,656</u>
Totals	<u>\$ 23,156</u>

- C.** On April 5, 2018, the District entered a lease agreement for a 2018 Ford F150 Regular Cab with Enterprise FM Trust in the amount of \$28,554. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$876 includes initial charges with the monthly payments of \$469 continuing thereafter. The balance of the lease at December 31, 2019 was \$17,945. Lease payments for the remaining years are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Scheduled</u> <u>Lease Payments</u>
2020	\$ 5,629
2021	5,629
2022	5,629
2023	<u>1,058</u>
Totals	<u>\$ 17,945</u>



**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE J – LEASES (Continued)**

- D.** On October 31, 2018, the District entered a lease agreement for a 2018 Ford F150 Super Cab with Enterprise FM Trust in the amount of \$34,633. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. The first payment of \$618 includes initial charges with the monthly payments of \$577 continuing thereafter. The balance of the lease at December 31, 2019 was \$28,386. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Lease Payments
2020	\$ 6,918
2021	6,918
2022	6,918
2023	7,632
Totals	<u>\$ 28,386</u>

**E. Lease Payment in the Aggregate**

Year Ended December 31	Scheduled Lease Payments
2020	\$ 25,831
2021	25,831
2022	25,739
2023	8,690
Totals	<u>\$ 86,091</u>

**NOTE K - RETIREMENT**

*General Information about the Pension Plan*

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a cost sharing multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five (5) percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six (6) percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KRS insurance fund. The District's contribution rate for nonhazardous employees was 21.48 percent for the first six months of 2019 and 24.06 percent for the last six months of 2019.

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE K - RETIREMENT (CONTINUED)**

*General Information about the Pension Plan (Continued)*

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, 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. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable.

The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District's contribution for calendar year 2017 was \$30,762, calendar year 2018 was \$37,682, and calendar year 2019 was \$35,589.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For member participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE K - RETIREMENT (CONTINUED)**

*General Information about the Pension Plan (Continued)*

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

*Pension Liabilities*

At December 31, 2019, the District has a liability of \$485,843 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 using standard roll-forward techniques. 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 December 31, 2019, the District's proportion was .006908%.

For the year ended December 31, 2019, the District recognized pension expense of \$84,573. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS**

<b>NON-HAZARDOUS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Liability Experience	\$ 12,405	\$ 2,053
Changes in Assumptions	49,173	
Investment Experience	9,326	17,158
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	10,145	13,839
District Contributions and Cash Balance Subsequent to the Measurement Date	9,366	
Total	<u>\$ 90,415</u>	<u>\$ 33,050</u>

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE K - RETIREMENT (CONTINUED)**

*Pension Liabilities (Continued)*

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
2020	\$ 35,390
2021	\$ 9,441
2022	\$ 2,612
2023	\$ 555
2024	\$ 0
Thereafter	\$ 0

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability

For financial reporting, the actuarial valuation as for June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles.

The 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 table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bond	13.50%	1.35%
Cash	1.00%	20.00%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE K - RETIREMENT (CONTINUED)**

*Pension Liabilities (Continued)*

Discount Rate

The projection of cash flows used to determine the discount rate of 5.25% for the CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

The following presents the net pension liability of the District, calculated using the discount rate of percent, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.25 percent) or one-percentage-point higher (7.25 percent) than the current rate for non-hazardous

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
<b>NON-HAZARDOUS</b>			
District's Net Pension Liability	\$ 607,651	\$ 485,843	\$ 384,316

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2019

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method	Level Percent of Pay
Remaining Amortization Period	26 Years, Closed
Payroll Growth Rate	2.00%
Investment Rate of Return	6.25%
Inflation	2.3%
Salary Increases	3.30% to 11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

401K

In January 2001, the district began a non-matching 401K deferred compensation plan. The employees may contribute twenty-five percent (25%) of their compensation, not to exceed \$10,500 annually. Participation is optional. Benefits are available upon separation of service or attainment of age fifty-nine and one-half (59.5) years. Benefits must commence by the later of: April 1 of the calendar year in which employment ends, or the calendar year in which the employee reaches age seventy and one-half (70.5) years of age.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018**

**NOTE L – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

At December 31, 2019, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

Plan Description

Employees of the District are provided hospital and medical insurance through the Kentucky Retirement System's Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration the KRS. The KRS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

For financial reporting the actuarial valuation as for June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2019, is determined using these updated benefit provisions.

Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate employer contributions are:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Amortization Method	Level Percent of Pay
Remaining Amortization Period	26 Years, Closed
Payroll Growth Rate	2.00%
Investment Return	6.25%
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Post – 65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance the HB 362 enacted in 2018

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE L – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

Discount Rate

The projection of cash flows used to determine the discount rate of 5.68% for CERS non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and the municipal bond rate 3.62%, as reported in Fidelity Index's "20-Yar Municipal GO AA Index" as of June 30, 2019. 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 payment associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Long-Term Expected Rate of Return

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 tables below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bond	13.50%	1.35%
Cash	1.00%	20.00%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE L – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

Deferred Inflows and Outflows of Resources

The deferred inflows and outflows of resources and OPEB Expense columns included in the Schedule of OPEB Amounts by Employer include only certain categories of deferred inflows of resources and deferred outflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of OPEB Amounts by Employer does not include deferred inflows/outflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net OPEB liability as of June 30, 2019 is based on the June 30, 2017 actuarial valuation rolled forward. Deferred inflows and outflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

Sensitivity of the Net OPEB to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.68%) or one percentage point higher (6.68%) follows:

<b>NON-HAZARDOUS</b>	1% Decrease (4.68%)	Current Discount Rate (5.68%)	1% Increase (6.68%)
District's Net Pension Liability	\$ 155,781	\$ 116,290	\$ 83,753

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current healthcare cost trend rates follows:

<b>NON-HAZARDOUS</b>	1% Decrease	Current Trend Rate	1% Increase
District's Net Pension Liability	\$ 86,486	\$ 116,290	\$ 152,432

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB

At December 31, 2019, the District reported a liability of \$116,290 (non-hazardous) for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year June 30, 2019. This method is to be reflective of the employers' long-term contribution effort. At December 31, 2019, the District's proportion was 0.006914%, non-hazardous.

For the year ended December 31, 2019, the District recognized OPEB expense of \$12,708 nonhazardous. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:



**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE L – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB (Continued)

<b>NON-HAZARDOUS</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Experience	\$	\$ 35,087
Changes in Assumptions	34,411	230
Investment Experience	766	5,931
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	4,862	6,087
District Contributions and Cash Balance Subsequent to the Measurement Date	<u>4,271</u>	
Total	<u>\$ 44,310</u>	<u>\$ 47,335</u>

The \$14,319 (non-hazardous) of deferred outflows of resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:

	<u>Non-Hazardous</u>
2020	\$ (912)
2021	\$ (912)
2022	\$ 730
2023	\$ (2,416)
2024	\$ (3,080)
Thereafter	\$ (705)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual expense are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018**

**NOTE M - INSURANCE COVERAGE**

For the fiscal years ended December 31, 2019 and 2018, the District was a member of the Kentucky Association of Counties All Lines Insurance Fund (KALF). KALF is a self- insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses. There have been no settlements that have exceeded insurance coverage for each of the past three fiscal years.

**NOTE N – COMPENSATED ABSENCES**

Upon termination of employment from the District, an employee who has been an employee of the District for a total of twelve months shall be compensated for a maximum of fifteen days of accrued annual leave. Employees accumulate 3.69 hours of annual leave per pay period. Employees employed less than six months upon termination will not be compensated for accrued annual leave, unless approved by the Water District Manager. Annual leave accrued as of December 31, 2019 and 2018 is \$8,245 and \$10,953, respectively.

**NOTE O – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 22, 2020, which is the date the financial statements were available to be issued. No events were identified that would have impacted the financial statements for the year ended December 31, 2019. However, in March, 2020 significant steps were taken by federal and state governments to limit the effect of the COVID -19 virus, including the Public Service Commission issuing a mandate to suspend cut-off for nonpayment and no late fees. The immediate and long-term impact that such decisions may have on the financial position of the District is unknown at this time.

**NOTE P – RELATED PARTY TRANSACTION**

A contractor was paid \$2,350 during the year ending December 31, 2019 for work on water lines. The owner of the company is related to a board member.

**MORGAN COUNTY WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE**  
**NET PENSION LIABILITY**  
**For the Year Ended December 31, 2019 and 2018**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>					
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
District's Proportion of the Net Pension Liability (Asset)	0.006712%	0.007105%	0.006721%	0.006825%	0.007287%	0.006908%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 218,000	\$ 305,472	\$ 330,925	\$ 399,488	\$ 443,801	\$ 485,843
District's Covered-Employee Payroll	\$ 181,675	\$ 175,555	\$ 162,411	\$ 169,633	\$ 185,528	\$ 179,554
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	119.99%	174.00%	203.76%	235.50%	239.21%	270.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	59.97%	55.50%	53.32%	53.54%	53.54%

**Note:**

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

**MORGAN COUNTY WATER DISTRICT**  
**SCHEDULE OF THE DISTRICTS' PENSION CONTRIBUTIONS**  
**Fiscal Year Ended December 31, 2019 and 2018**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>					
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually Required Pension Contribution	\$ 29,088	\$ 21,212	\$ 19,095	\$ 23,180	\$ 26,151	\$ 28,262
Pension Contributions in Relation to the Contractually Required Pension Contribution	<u>29,088</u>	<u>21,212</u>	<u>19,095</u>	<u>23,180</u>	<u>26,151</u>	<u>28,262</u>
Pension Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's Covered-Employee Payroll	\$ 181,675	\$ 175,555	\$ 162,411	\$ 169,633	\$ 185,528	\$ 179,554
Pension Contributions as a Percentage of Covered-Employee Payroll	16.01%	12.08%	11.76%	13.66%	14.10%	15.74%

**Note:**

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

**MORGAN COUNTY WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE**  
**NET OPEB LIABILITY**  
**For the Year Ended December 31, 2019 and 2018**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
District's Proportion of the Net OPEB Liability (Asset)	0.006825%	0.007826%	0.006914%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 8,720	\$ 10,032	\$ 9,175
District's Covered-Employee Payroll	\$ 169,633	\$ 185,528	\$ 179,554
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	5.14%	5.41%	5.11%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.39%	57.62%	57.62%

**Note:**

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

**MORGAN COUNTY WATER DISTRICT**  
**SCHEDULE OF THE DISTRICTS' OPEB CONTRIBUTIONS**  
**Fiscal Year Ended December 31, 2019 and 2018**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually Required Pension Contribution	\$ 8,720	\$ 10,032	\$ 9,175
Pension Contributions in Relation to the Contractually Required Pension Contribution	<u>8,720</u>	<u>10,032</u>	<u>9,175</u>
Pension Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's Covered-Employee Payroll	\$ 169,633	\$ 185,528	\$ 179,554
Pension Contributions as a Percentage of Covered-Employee Payroll	5.14%	5.41%	5.11%

**Note:**

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2019 and 2018**

**Note 1. Changes in Benefit Terms**

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 listed below:

**2009:** A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

**2014:** A cash balance plan was introduced for members whose participation date is on or after January 1, 2014

**Note 2. Changes of Assumption**

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

**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 1.00% to 0.75%.
- 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 to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

**Note 3. Method and Assumptions Used in Calculations of Actuarially Determined Contributions**

The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal years ended 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2019 and 2018**

**Note 3. Method and Assumptions Used in Calculations of Actuarially Determined Contributions (Continued)**

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation



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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 Directors  
Morgan County Water District  
West Liberty, 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 the business-type activities of Morgan County Water District, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 22, 2020.

### **Internal Control Over Financial Reporting**

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

**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***

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Morgan County Water 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky

June 22, 2020