

MORGAN COUNTY WATER DISTRICT
AUDIT OF FINANCIAL STATEMENTS

For The Years Ended

December 31, 2020 and 2019

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Statements of Net Position	3
Statements of Revenues, Expenses and Changes in Fund Net Position	5
Statements of Cash Flows	7
Notes to the Financial Statements	9
Required Supplemental Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability	35
Schedule of the Districts' Pension Contributions	36
Schedule of the District's Proportionate Share of the Net OPEB Liability	37
Schedule of the Districts' OPEB Contributions	38
Notes to Required Supplementary Information	39
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	41
Comments and Recommendations	43

Morgan and Associates, LLC

Brenda K. Morgan, CPA

749 Broadway Street
P.O. Box 428
West Liberty, KY 41472

Phone: (606) 743-1884
Fax: (606) 743-1895
www.bkmorgancpa.com

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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, 2020 and 2019, 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 May 24, 2021, 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 preformed 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
May 24, 2021

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash - Unrestricted	\$	\$ 792
Cash - Restricted	157,611	173,742
Accounts Receivable	122,810	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	333,910	337,453
NONCURRENT ASSETS		
Prepaid Capital Lease (Net of Accumulated Amortization of \$38,488 and \$34,211)	384,877	389,153
Cash - Restricted	<u>39,262</u>	<u>25,336</u>
Total Noncurrent Assets	424,139	414,489
PROPERTY AND EQUIPMENT		
Water Lines	22,525,857	22,525,857
Accum. Depr. Water Lines	(6,629,375)	(6,179,278)
Office Equipment	24,430	1,099
Accum. Depr. Office Equipment	(1,655)	(1,099)
Equipment and Vehicles (Restated)	507,445	487,108
Accum. Depr. Equipment and Vehicles (Restated)	(434,374)	(391,625)
Land	<u>71,076</u>	<u>71,076</u>
Total Property and Equipment	<u>16,063,404</u>	<u>16,513,138</u>
TOTAL ASSETS	16,821,453	17,265,080
DEFERRED OUTFLOWS OF RESOURCES		
Pension Liabilities	125,047	90,415
OPEB Liabilities	98,264	44,310

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Cash - Unrestricted	10,564	
Accrued Interest	66,874	75,296
Accrued Expenses	268,840	129,969
Accrued Salaries	3,819	8,627
Accounts Payable-Water Purchases	54,123	42,010
Accounts Payable-Retirement	5,220	5,220
Lease Payable	26,661	19,717
Loan Payable	30,460	30,000
Bonds Payable	101,520	99,550
Total Current Liabilities	568,081	410,389
LONG-TERM LIABILITIES		
Compensated Absences	13,566	8,245
Net Pension Liability	605,923	485,843
OPEB Liability	190,713	116,290
Lease Payable	47,901	54,688
Bonds Payable	3,380,820	3,482,340
	4,238,923	4,147,406
OTHER LIABILITIES		
Customer Deposits	31,690	21,049
TOTAL LIABILITIES	4,838,694	4,578,844
DEFERRED INFLOWS OF RESOURCES		
Refunding Bond Premium		
(Net of Accumulated Amortization of \$10,420 and \$8,336)	41,681	43,765
Pension Liabilities	19,175	33,050
OPEB Liabilities	40,891	47,335
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	12,849,698	13,202,231
Restricted for Debt Service	157,611	173,742
Restricted for Depreciation Reserve	2,503	501
Restricted for Construction	4,245	881
Unrestricted	(909,734)	(680,544)
TOTAL NET POSITION	<u>\$ 12,104,323</u>	<u>\$ 12,696,811</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, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Water Collection	\$ 1,453,863	\$ 1,450,309
Sales Tax	(4,188)	(3,835)
Utility And Local Tax	(42,258)	(38,636)
State Reimb. Relocation Projects		1,403
Tap-On Fees	50,890	39,715
Miscellaneous	16,931	19,263
Net Operating Revenues	1,475,238	1,468,219
OPERATING EXPENSES		
Advertising		1,286
Bank Charges	736	599
Collection Expense	1,626	
Depreciation	493,403	508,422
Fuel	15,945	16,601
Insurance	70,130	66,912
Miscellaneous	6,258	8,226
Office Supplies	7,622	5,275
Outside Services	64,981	32,431
Payroll Taxes	18,119	14,433
Postage	11,855	13,224
Repairs & Maintenance	3,565	2,163
Leasing and Maintenance Fees		4,640
Retirement	114,782	84,573
OPEB	29,191	12,078
Salaries	237,350	189,310
Supplies & Testing	84,435	59,931
Travel	832	1,029
Uniforms	2,030	469
Unemployment Insurance	277	256
Utilities and Telephone	41,104	44,766
Water Purchased	719,008	770,593
Worker's Compensation	4,344	2,694
Total Operating Expenses	1,927,593	1,839,911
NET OPERATING INCOME	(452,355)	(371,692)

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
NON OPERATING REVENUES (EXPENSES)		
Interest and Amortization Expense	(143,466)	(147,208)
Interest Income	56	75
Grant Proceeds	<u>3,277</u>	<u>6,575</u>
Total Non Operating Revenues (Expenses)	<u>(140,133)</u>	<u>(140,558)</u>
Change in Net Position	(592,488)	(512,250)
Total Net Position - Beginning (Restated)	<u>12,696,811</u>	<u>13,209,061</u>
Total Net Position - Ending	<u><u>\$ 12,104,323</u></u>	<u><u>\$ 12,696,811</u></u>

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from Customers	\$ 1,490,973	\$ 1,490,311
State Reimb. Relocation Projects		1,403
Miscellaneous Income	16,931	19,263
Payments to Vendors	(873,312)	(1,009,709)
Payments for Payroll and Related Expenses	<u>(370,230)</u>	<u>(289,014)</u>
Net Cash Provided/(Used) by Operating Activities:	264,362	212,254
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net (Deposits)/Withdrawals Customer Deposit Account	(8,560)	(3,948)
Net Customer Deposits (Returned)/Collected	<u>10,641</u>	<u>2,599</u>
Net Cash Provided/(Used) by Noncapital Financing Activities	2,081	(1,349)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest Expense	(149,295)	(145,016)
Net (Deposits)/Withdrawals into or from Bond Sinking Fund	16,131	(5,703)
Net (Deposits)/Withdrawals into or from Dep. Reserve Fund	(2,002)	19,729
Net (Deposits)/Withdrawals into or from Cash - Construction	(3,364)	
Grant Proceeds	3,277	6,575
Purchase of Fixed Assets	(43,668)	
Proceeds from Borrowed Money	30,460	30,000
Increase in Lease Payable	18,661	
Reduction in Lease Payable	(18,505)	(25,832)
Reduction in Bonds Payable	(99,550)	(93,120)
Reduction in Loan Payable	<u>(30,000)</u>	
Net Cash Provided/(Used) by Capital and Related Financing Activities	(277,855)	(213,367)

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

MORGAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest	<u>56</u>	<u>75</u>
Net Cash Provided/(Used) by Investing Activities	<u>56</u>	<u>75</u>
INCREASE/(DECREASE) IN CASH	(11,356)	(2,387)
CASH AT BEGINNING OF YEAR	<u>792</u>	<u>3,179</u>
CASH AT END OF YEAR	<u>\$ (10,564)</u>	<u>\$ 792</u>

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

Net Operating Income	\$ (452,355)	\$ (371,692)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	493,403	508,422
Changes in Assets/Liabilities:		
Accounts Payable Retirement		2,022
Accounts Receivable	(13,780)	
Net OBEB Liability	74,423	(13,071)
Net Pension Liability	120,080	42,042
Deferred Outflows	(88,587)	10,451
Deferred Inflows	(20,319)	21,640
Accrued Expenses		287
Accounts Payable	138,871	5,008
Accounts Payable - Water Purchases	12,113	6,502
Accrued Salaries	(4,808)	5,627
Compensated Absences	5,321	(2,709)
Payroll Tax Liability		(2,275)
Net Cash Provided/Used by Operating Activities	<u>\$ 264,362</u>	<u>\$ 212,254</u>

Supplementary Information

	<u>2020</u>	<u>2019</u>
Interest and Amortization Expense	\$ 143,466	\$ 145,016
Amortization of Bond Premium	(2,084)	(2,084)
Total Interest Charged to Expense	<u>\$ 141,382</u>	<u>\$ 142,932</u>

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

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019 are \$493,403 and \$508,422, 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 for the current year was \$141,382.

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, 2020 and 2019**

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, 2020, 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, 2020, 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, 2020, \$166,982 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, 2020 was \$157,611.

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 \$2,503 on deposit in this account for the purpose of maintaining the water system at December 31, 2020.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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, 2020:

	2020	2019
Customer Deposit Accounts	\$ 32,514	\$ 23,954
Bond and Interest Sinking Fund	157,611	173,742
Depreciation Reserve Fund	2,503	501
Construction Account	4,245	881
	<hr/>	<hr/>
Total Restricted Cash Accounts	<u>\$ 196,873</u>	<u>\$ 199,078</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, 2020 and 2019 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, 2020 and 2019, the bond premium, net of accumulated amortization of \$10,420 and \$8,336, is \$41,681 and \$43,765, 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, 2020 and 2019

NOTE G - PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2019			December 31, 2020
	Beginning			Ending
	Balance	Increases	Decreases	Balance
Primary Government:				
<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	23,331		24,430
Vehicles (Restated) and Equipment	487,108	20,337		507,445
Waterlines	22,525,857			22,525,857
Total Capital Assets Being Depreciated	23,014,064	43,668		23,057,732
Less Accumulated Depreciation for:				
Office Equipment	(1,099)	(556)		(1,655)
Vehicles (Restated) and Equipment	(391,624)	(42,750)		(434,374)
Waterlines	(6,179,278)	(450,097)		(6,629,375)
Total Accumulated Depreciation	(6,572,001)	(493,403)		(7,065,404)
Total Capital Assets, Being Depreciated, Net	16,442,063	(449,735)		15,992,328
Business-Type Activities Capital Assets, Net	\$ 16,513,139	\$ (449,735)	\$ 0	\$ 16,063,404

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, 2020 and 2019:

<u>Water Utility Fund Revenue Bonds</u>	2020	2019
Bonds Payable - Beginning	\$ 3,581,890	\$ 3,675,010
Bonds Retired	(99,550)	(93,120)
Bonds Payable - Ending	\$ 3,482,340	\$ 3,581,890

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE H - BONDS PAYABLE (CONTINUED)

Bonds payable at December 31, 2019 consists of the following issues:

\$332,000 Water revenue bonds, Series 2001, maturing through January 1, 2040, with interest at 3.25 percent	\$ 223,000
\$1,000,000 Water revenue bonds, Series 2006, maturing through January 1, 2045, with interest at 4.125 percent	811,000
\$1,446,000 Water revenue bonds, Series 2008, maturing through January 1, 2048, with interest at 4.125 percent	1,248,340
\$1,330,000 KRWFC revenue bonds, Series 2016 D, maturing through January 1, 2042 with interest varied from 3.5% - 5%	<u>1,200,000</u>
Total	<u>\$ 3,482,340</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, 2020, 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, 2020, according to the bond documents, including interest payments are as follows:

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE H - BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2001

YEAR	PRINCIPAL	INTEREST	TOTAL
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>\$ 223,000</u>	<u>\$ 98,021</u>	<u>\$ 321,021</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE H - BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2006

YEAR	PRINCIPAL	INTEREST	TOTAL
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>\$ 811,000</u>	<u>\$ 558,530</u>	<u>\$ 1,369,530</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE H - BONDS PAYABLE (CONTINUED)

WATER REVENUE BOND – SERIES 2008

YEAR	PRINCIPAL	INTEREST	TOTAL
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>\$ 1,248,340</u>	<u>\$ 954,645</u>	<u>\$ 2,202,985</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE H - BONDS PAYABLE (CONTINUED)

KRWFC REFUNDING BOND – SERIES 2016 D

YEAR	PRINCIPAL	FEES & INTEREST	TOTAL
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>\$ 1,200,000</u>	<u>\$ 491,618</u>	<u>\$ 1,691,618</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE H - BONDS PAYABLE (CONTINUED)

BONDS PAYABLE IN THE AGGREGATE

Year Ended December 31	Scheduled Principal	Scheduled Interest
2021	\$ 101,520	\$ 144,617
2022	104,030	140,562
2023	111,090	136,031
2024	113,680	131,317
2025	119,820	126,675
2026-2030	663,960	555,205
2031-2035	714,970	420,123
2035-2040	727,640	283,794
2041-2045	615,820	138,908
2046-2048	209,810	25,582
Totals	<u>\$ 3,482,340</u>	<u>\$ 2,102,814</u>

NOTE I - LOAN PAYABLE

1. On June 1, 2020, the District entered into a promissory note with the Bank of the Mountains in the amount of \$30,000 for the purpose of operating expenses, collateralized with a Kubota excavator. Principal and interest of 3% are to be paid in full on June 1, 2020. The note was paid in full at December 31, 2020.
2. On July 17, 2020, the District enter into a promissory note with the Bank of the Mountains in the amount of \$30,460 for the purpose of paying the balance due on a short term loan (see #1), collateralized with a Kubota excavator. Principal and interest of 3% are to be paid in full on July 16, 2021. Payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2020	\$ 30,460	\$ 914
Totals	<u>\$ 30,460</u>	<u>\$ 914</u>

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE J – LEASES

- A. (Restated) 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 \$20,898. 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. Monthly payments include imputed interest of 11.655%. The balance of the lease at December 31, 2020 was \$10,157. Lease payments for the remaining years are as follows:

<u>Year Ended December 31</u>	<u>Scheduled Principal Payments</u>	<u>Imputed Interest</u>
2021	\$ 5,367	\$ 1,089
2022	<u>4,790</u>	<u>287</u>
Totals	<u>\$ 10,157</u>	<u>\$ 1,376</u>

- B. (Restated) 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 \$32,952. 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. Monthly payments include imputed interest of 6.572%. The balance of the lease at December 31, 2020 was \$15,019. Lease payments for the remaining years are as follows:

<u>Year Ended December 31</u>	<u>Scheduled Principal Payments</u>	<u>Imputed Interest</u>
2021	\$ 8,143	\$ 861
2022	<u>6,876</u>	<u>228</u>
Totals	<u>\$ 15,019</u>	<u>\$ 1,089</u>

- C. (Restated) 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 \$21,895. 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. Monthly payments include imputed interest of 10.364%. The balance of the lease at December 31, 2020 was \$17,945. Lease payments for the remaining years are as follows:

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE J- LEASES (Continued)

C. (Continued)

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2021	\$ 5,336	\$ 1,231
2022	5,146	484
2023	<u>1,837</u>	<u>40</u>
Totals	<u>\$ 12,319</u>	<u>\$ 1,755</u>

- D.** (Restated) 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 \$28,532. 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. Monthly payments include imputed interest of 10.364%. The balance of the lease at December 31, 2020 was \$18,406. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2021	\$ 6,629	\$ 1,442
2022	6,214	704
2023	<u>5,563</u>	<u>202</u>
Totals	<u>\$ 18,406</u>	<u>\$ 2,348</u>

- E.** On June 10, 2020, the District entered a lease agreement for a 2020 Ford Escape with Enterprise FM Trust in the amount of \$20,337. Payments begin on the delivery date of the vehicle and end 48 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. Monthly payments of \$577 include imputed interest of 12.574%. The balance of the lease at December 31, 2020 was \$18,406. Lease payments for the remaining years are as follows:

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2021	\$ 4,789	\$ 2,248
2022	5,035	1,461
2023	5,705	790
2024	<u>3,132</u>	<u>116</u>
Totals	<u>\$ 18,661</u>	<u>\$ 4,615</u>

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE J – LEASES (Continued)

F. Lease Payment in the Aggregate

Year Ended December 31	Scheduled Principal Payments	Imputed Interest
2021	\$ 30,264	\$ 6,871
2022	28,061	3,164
2023	13,105	1,032
2024	3,132	116
Totals	<u>\$ 74,562</u>	<u>\$ 11,183</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 Public Pensions Authority (KPPA). 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 24.06 percent for the first six months of 2020 and 24.06 percent for the last six months of 2020

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 2018 was \$37,682, calendar year 2019 was \$35,589, and calendar year 2020 was \$58,376.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE K - RETIREMENT (CONTINUED)

General Information about the Pension Plan (Continued)

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.

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

Pension Liabilities

At December 31, 2020, the District has a liability of \$605,923 for its proportionate share of the net pension liability for non-hazardous retirement. 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, 2020 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, 2020, the District's proportion was .007900%.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE K - RETIREMENT (CONTINUED)

Pension Liabilities (Continued)

For the year ended December 31, 2020, the District recognized pension expense of \$114,782. At December 31, 2020, 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

NON-HAZARDOUS	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	\$ 15,110	\$
Changes in Assumptions	23,660	
Investment Experience	26,265	11,102
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	46,493	8,073
District Contributions and Cash Balance Subsequent to the Measurement Date	13,519	
Total	<u>\$ 125,047</u>	<u>\$ 19,175</u>

The \$13,519 (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 pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
2021	\$ 41,979
2022	\$ 34,102
2023	\$ 10,182
2024	\$ 6,090
2025	\$ 0
Thereafter	\$ 0

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE K - RETIREMENT (CONTINUED)

Pension Liabilities (Continued)

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

For financial reporting, the actuarial valuation as for June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

The 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>
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bond	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%
Expected Real Return	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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%)
NON-HAZARDOUS			
District's Net Pension Liability	\$ 747,235	\$ 605,923	\$ 488,912

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2020

Valuation Date	June 30, 2018
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	25 Years, Closed
Payroll Growth Rate	2.00%
Investment Rate of 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)

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, 2020 and 2019

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

At December 31, 2020, 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 Public Pensions Authority's Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KPPA was created by state statute under Kentucky Revised Statute Section 61.645. The KPPA Board of Trustees is responsible for the proper operation and administration of the KPPA. The KPPA issues a publicly available financial report that can be obtained by writing the Kentucky Public Pensions Authority, 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, 2019, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2018 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2019 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, 2020, is determined using these updated benefit provisions.

Based on the June 30, 2018 actuarial valuation report, the actuarial methods and assumptions used to calculate employer contributions are:

Valuation Date	June 30, 2018
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	25 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 7.005% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability (Continued)

Healthcare Trend Rates (Continued)

Post – 65

Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.

Phase-in Provision

Board certified rate is phased into the actuarially determined rate in accordance the HB 362 enacted in 2018

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, 2020. 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>
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bond	13.50%	-0.25%
Cash	1.00%	-0.75%

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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

Long-Term Expected Rate of Return (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

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, 2020 is based on the June 30, 2018 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 (4.34%) or one percentage point higher (6.34%) follows:

	<u>1% Decrease (4.34%)</u>	<u>Current Discount Rate (5.34%)</u>	<u>1% Increase (6.34%)</u>
NON-HAZARDOUS			
District's Net Pension Liability	\$ 245,010	\$ 190,713	\$ 146,117

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:

MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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

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

NON-HAZARDOUS	1% Decrease	Current Trend Rate	1% Increase
District's Net Pension Liability	\$ 147,659	\$ 190,713	\$ 242,959

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

At December 31, 2020, the District reported a liability of \$190,713 (non-hazardous) for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020 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, 2020. This method is to be reflective of the employers' long-term contribution effort. At December 31, 2020, the District's proportion was 0.007898%, non-hazardous.

For the year ended December 31, 2020, the District recognized OPEB expense of \$29,191 nonhazardous. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NON-HAZARDOUS	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	\$ 31,864	\$ 31,889
Changes in Assumptions	33,173	202
Investment Experience	10,230	3,891
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	17,160	4,909
District Contributions and Cash Balance Subsequent to the Measurement Date	5,838	
Total	\$ 98,265	\$ 40,891

The \$5,838 (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, 2020. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

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

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

		Non-Hazardous
2021	\$	13,816
2022	\$	15,692
2023	\$	12,093
2024	\$	10,697
2025	\$	(762)
Thereafter	\$	0

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.

NOTE M - INSURANCE COVERAGE

For the fiscal years ended December 31, 2020 and 2019, 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, 2020 and 2019 is \$14,959 and \$8,245, respectively.

NOTE O – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 24, 2021, 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, 2020.

**MORGAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE P – PRIOR YEAR ADJUSTMENT

Prior period adjustments were made to the vehicle and A/D vehicles fixed asset accounts and the leasing obligation accounts to account for imputed interest on leases.

NOTE Q – PUBLIC SERVICE COMMISSION MANDATE

During the year ended December 31, 2020, the Public Service Commission, the governing agency of water districts, issued a mandate prohibiting late charges and cutoffs due to the COVID 19 pandemic from April through December. This caused a reduction in penalties and disconnection revenue.

For the Year Ended December 31, 2020 and 2019

35

MORGAN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICTS' PENSION CONTRIBUTIONS
Fiscal Year Ended December 31, 2020 and 2019

<i>(Actuarial Valuation Report Year)</i>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	Non-Hazardous						
Contractually Required Pension Contribution	\$ 29,088	\$ 21,212	\$ 19,095	\$ 23,180	\$ 26,151	\$ 28,262	\$ 39,056
Pension Contributions in Relation to the Contractually Required Pension Contribution	29,088	21,212	19,095	23,180	26,151	28,262	39,056
Pension Contribution Deficiency (Excess)	<u>\$ 0</u>	<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	\$ 208,314
Pension Contributions as a Percentage of Covered-Employee Payroll	16.01%	12.08%	11.76%	13.66%	14.10%	15.74%	18.75%

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, 2020 and 2019

	<i>(Actuarial Valuation Report Year)</i>			Non-Hazardous	
	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2020</i>
District's Proportion of the Net OPEB Liability (Asset)	0.006825%	0.007826%	0.006914%		0.007898%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 137,206	\$ 129,361	\$ 116,290		\$ 190,713
District's Covered-Employee Payroll	\$ 169,633	\$ 185,528	\$ 179,554		\$ 208,314
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	80.88%	69.73%	64.77%		91.55%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.39%	57.62%	57.62%		51.67%

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, 2020 and 2019

<i>(Actuarial Valuation Report Year)</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
	Non-Hazardous			
Contractually Required Pension Contribution	\$ 8,720	\$ 10,032	\$ 9,175	\$ 9,632
Pension Contributions in Relation to the				
Contractually Required Pension Contribution	8,720	10,032	9,175	9,632
Pension Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 9,632
District's Covered-Employee Payroll	\$ 169,633	\$ 185,528	\$ 179,554	\$ 208,314
Pension Contributions as a Percentage of				
Covered-Employee Payroll	5.14%	5.41%	5.11%	4.62%

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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2020 and 2019

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 2019, 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, 2020 and 2019

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

Morgan and Associates, LLC

Brenda K. Morgan, CPA

749 Broadway Street
P.O. Box 428
West Liberty, KY 41472

Phone: (606) 743-1884
Fax: (606) 743-1895
www.bkmorgancpa.com

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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 24, 2021.

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 and therefore material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying comment and recommendation as item 2020-001 that we consider to be a significant deficiency.

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*.

Morgan County Water District's Response to the Finding

Morgan County Water District's response to the finding identified in our audit is described in the accompanying comment and recommendation. Morgan 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.

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky

May 24, 2021

**MORGAN COUNTY WATER DISTRICT
COMMENTS AND RECOMMENDATIONS
December 31, 2020 and 2019**

SIGNIFICANT DEFICIENCY

2020-001 The District Does Not Properly Maintain An Accounts Payable List

Condition: During our audit, we became aware of the possibility of unpaid, unrecorded invoices. Upon inquiry, we were provided copies of invoices totaling \$125,596 that were not recorded on the general ledger and which were unpaid at December 31, 2020. This amount is included in the accounts payable total. The dates of the invoices varied from March 2020 through December 2020. It appears from the minutes that the Board is given, for approval, a list which only includes invoices for which checks have been written. We noted that in the case of two vendors, the District was making payments toward the balance on invoices. Per inquiry, there was not a formal arrangement with the vendors. There was an additional \$136,112 of checks written after December 30, 2020 that were accounts payable; a substantial amount of which were six (6) months or more past due (in addition to the aforementioned unrecorded \$125,596). In addition, the District owes an outstanding balance of \$54,112 for purchased water.

Criteria: Pursuant to KRS 65.140, local governments are to pay invoices within 30 days unless an arrangement is made with the vendor.

Effect: The Board cannot make proper financial decisions without accurate financial information.

Cause: Improper maintenance of financial information.

Recommendation: We recommend the District implement controls to ensure that an accurate, up-to-date list of unpaid invoices is maintained in a central location. Further, we recommend that the list become a part of the documents submitted to Board members each month along with the list of checks.

Morgan County Water District's Response: *During the fiscal year 2020 the water district experienced several unforeseen expenses and reduction of revenue due to the COVID 19 pandemic. During the course of the year the water district made strives to improve the infrastructure... this included tank inspections, purchase of computers, and upgrade and repair to our SCADA system. Along with revenue being cut by the lack of ability to collect on late fees or conduct water disconnections.*

The board was informed of the purchase being made each month. The vendors were also contacted each month and payment arrangements were made with each vendor. Since, we have been able to close projects and have been approved for a rate increase. These actions will result in a much better ability to pay vendors on-time in the future. We have also created a excel spreadsheet that will show accounts payable and their age and this report will be included each month in the board packet.