

MOUNTAIN WATER DISTRICT

REPORT OF AUDIT

DECEMBER 31, 2019

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## INDEPENDENT AUDITOR'S REPORT

To the Board Of Commissioners  
Mountain Water District  
Pikeville, Kentucky

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

I have audited the accompanying financial statements of the business-type activities of Mountain Water District, Kentucky as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Mountain Water 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***

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

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

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

### ***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, of the Mountain Water District, Kentucky, as of December 31, 2019 and 2018, and the respective changes in financial position, and, where applicable, 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 management's discussion and analysis on pages 3–5 and pension schedules and OPEB on page 47 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.


*Other Information*

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Mountain Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued our report dated September 25, 2020, on my consideration of the Mountain 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 the effectiveness of the Mountain Water District, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mountain Water District, Kentucky's internal control over financial reporting and compliance.

Richard F. Paulmann CPA, LLC



Pewee Valley, Kentucky  
September 25, 2020

**MOUNTAIN WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Our discussion and analysis of the Mountain Water (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2019. Please read it in conjunction with the accompanying basic financial statements. It is our intent that this discussion provide all parties interested in the District's financial condition, especially the users of the facilities, a better understanding of the District's operations and financial status.

The District reports its financial statements in a required model format issued by the Governmental Accounting Standards Board.

**Financial Highlights**

- Net position decreased this year by \$3,668,374 from operating activities and before capital contributions.
- The District's total long-term debt increased by \$4151,306 from the prior year.
- The District acquired several vehicles through financing.
- The District was able to make the following purchases:
  1. Significant water and sewer line extensions to the outlying areas of Pike County.
  2. Assorted new equipment for treatment plant and distribution system to facilitate daily operations.

**Overview of the Financial Statements**

The District's basic financial statements include: (1) fund financial statements, and (2) notes to the financial statements. These financial statements present information about business-type activities, which consists principally of the fees the District charges its users to cover all or most of the cost of the services it provides.

**Fund Financial Statements**

The fund financial statements provide detailed information about the proprietary fund. When the District charges customers for services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net POSITION and the Statement of Revenue Expense and changes in net position. In fact, the District's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.

**MOUNTAIN WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
**(CONTINUED)**

**Notes to the financial statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

**Reporting on the District as a Whole**

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statements of Financial Position and the Statement of Revenue, Expenses and Changes in Fund Net Position report information about the District as a whole and about its activities in a way that helps answer this question.

Our discussion begins with an analysis of overall revenues and expenses and their treatment. A majority of the District's revenue is received from charges for services.

The District's total revenues decreased from a year ago by \$40,587 (0%). The decrease was the result of a loss of customers of 1% as well. Total cost of all programs and services (including depreciation) increased by \$665,620 (.05%). Interest expense increased by \$9,650, due in large part to new financing of new projects. This trend is expected to remain approximately the same through the next fiscal year end.

**Financial Analysis of the District's Proprietary Fund**

At year-end, the District's proprietary fund reported total net position of \$69,849,883, which is a decrease of \$3,085,257 or (4%) from last year.

**Capital Assets**

As noted above, the District was able to make several capital asset purchases without significant additional debt.

**Debt/Advances in Construction**

At year-end, the District had various bond/notes payables to various lenders with a combined remaining principal balance of \$14,844,578 to be paid from utility revenues.

As of December 31, 2019, the District received advances for construction towards projects not completed in the amount of \$2,775,212. During 2019, various construction projects were completed allowing the advances for construction from the prior year in the amount of \$840,260 to be transferred to capital contributions from government grants.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
**(CONTINUED)**

**Contacting the District's Financial Management**

This financial report is designed to provide our customers, creditors, and other users with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Treasurer, at the Mountain Water District, P. O. Box 3157, Pikeville, KY41502, telephone number (606) 631-9162.

MOUNTAIN WATER DISTRICT  
STATEMENT OF NET POSITION  
, December 31, 2019  
(with prior year data for comparison purposes only)

	<u>2019</u>	<u>2018</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS</u></b>		
Cash and Cash Equivalents	\$ 607,517	\$ 709,206
Accounts Receivable (Net of Allowance for Delinquencies of \$41,000 in 2019 and \$41,000 in 2018)	1,074,100	1,155,733
Prepaid Expenses	45,485	34,598
Inventory	<u>322,595</u>	<u>270,663</u>
<b>TOTAL CURENT ASSETS</b>	<u>2,049,697</u>	<u>2,170,200</u>
<b><u>NONCURRENT ASSETS</u></b>		
<b>Restricted Cash</b>		
Cash-Depreciation Reserve	857,680	851,513
Cash-Construction	287,361	294,159
Cash-Customer Deposits	372,930	379,459
Cash-Recycling Account	26,236	5,711
Cash-Operation and Maintence Reserve	258,192	180,108
Cash-Wastewater Operation and Maintenance Reserve	869,003	868,234
Cash-Sinking Fund	<u>558,538</u>	<u>670,983</u>
<b>TOTAL RESTRICTED CASH</b>	3,229,940	3,250,167
<b>Capital Assets</b>		
Supply & Pumping	4,011,019	3,566,550
Water Treatment Equipment	17,842,502	13,574,780
Transmission & Distributiion	95,612,808	93,065,241
General Plant	4,176,767	4,176,767
Land and Land Rights	567,655	567,155
Sewer Utility Plant	29,368,099	29,368,099
Sewer General Plant	<u>725,012</u>	<u>725,012</u>
Total Capital Assets	152,303,862	145,043,604
Less: Accumulated Depreciation	<u>(66,070,467)</u>	<u>(62,094,399)</u>
Net Capital Assets	<u>86,233,395</u>	<u>82,949,205</u>
Construction in Progress	2,775,212	5,075,368
<b>OTHER ASSETS</b>		
Deposit on Leased Vehicles	625	625
FEMA receivable	<u>3,733</u>	<u>260</u>
<b>TOTAL OTHER ASSETS</b>	4,358	885
<b><u>TOTAL NONCURRENT ASSETS</u></b>	<u>92,242,905</u>	<u>91,275,625</u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 94,292,602</u>	<u>\$ 93,445,825</u>
<b><u>DEFERRED OUT FLOW OF RESOURCES</u></b>		
Deferred Pension Contributions	\$ 1,897,518	\$ 2,718,441
Deferred OPEB	596,357	\$ 449,662
<b><u>TOTAL OUT FLOW RESOURCES</u></b>	<u>\$ 2,493,875</u>	<u>\$ 3,168,103</u>

See Accompanying notes to the basic financial statements



MOUNTAIN WATER DISTRICT  
STATEMENT OF NET POSITION (CONTINUED)  
December 31, 2019  
(with prior year data for comparison purposes only)

	<u>2019</u>	<u>2018</u>
<b><u>LIABILITIES</u></b>		
<b><u>CURRENT LIABILITIES</u></b>		
Accounts Payable Trade	\$ 431,951	\$ 224,755
Other Accrued Liabilities	135,526	72,687
Accrued Interest	138,617	144,516
Customer Deposits	363,550	367,570
Line of Credit	137,285	157,287
Bonds Payable, Current	78,500	75,000
Notes Payable and Capital Leases, Current	<u>1,061,714</u>	<u>939,257</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,347,143</b>	<b>1,981,072</b>
<b><u>LONG-TERM LIABILITIES</u></b>		
Bonds Payable, Long-Term	3,422,000	3,501,500
Notes Payable and Capital		
Net Pension Liability	5,938,492	4,976,997
Net OPEB Liability	1,419,839	1,450,922
Leases, Long-Term	10,282,364	6,051,558
Advances For Construction	2,853,632	5,148,216
Less - Deferred Financing Cost	<u>(67,360)</u>	<u>(70,800)</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>23,848,967</b>	<b>21,058,393</b>
<b><u>TOTAL LIABILITIES</u></b>	<b><u>26,196,110</u></b>	<b><u>23,039,465</u></b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Deferred Pension Investment Earnings	234,819	364,279
Deferred OPEB	<u>505,665</u>	<u>275,044</u>
	<u><u>740,484</u></u>	<u><u>639,323</u></u>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	71,388,817	72,381,890
Restricted for:		
Construction	287,361	294,159
Depreciation, Maintenance and Replacement- Capital Assets	2,272,236	2,119,237
Customer Deposits	9,380	54,308
Unrestricted (Deficit)	<u>(4,107,911)</u>	<u>(1,914,454)</u>
<b><u>TOTAL NET POSITION</u></b>	<b><u>69,849,883</u></b>	<b><u>72,935,140</u></b>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(with prior year data for comparison purposes only)

	<u>2019</u>	<u>2018</u>
<b><u>OPERATING REVENUE</u></b>		
Metered Sales-Residential	\$6,763,894	\$6,863,609
Metered Sales-Commercial	578,277	585,779
Sewage Revenue	2,084,578	2,041,292
Metered Sales-Multi-Family	300,180	309,536
Metered Sales-Public Authorities	402,701	341,302
Customer Late Payment Charges	221,616	253,210
Other Water Service Revenue	37,919	70,611
Service Connection Fees	142,183	139,190
Metered Sales-Industrial	55,360	53,388
Fire Protection Revenue	<u>1,100</u>	<u>1,200</u>
<b><u>TOTAL OPERATING REVENUE</u></b>	<b>10,587,808</b>	<b>10,659,117</b>
<b><u>OPERATING EXPENSES</u></b>		
Depreciation	3,955,000	3,897,004
Water Purchased	1,341,341	1,055,679
Material and Supplies	660,998	598,156
Wages	2,338,303	2,245,368
Contract Service-Accounting	50,971	45,500
Education, Dues and Meetings	129,805	59,223
Employee Benefits	662,118	677,572
Contract Service-Legal Engineering	294,222	130,941
Easements	10,955	-
PSC Tax Assessment	19,410	21,347
Payroll Taxes	199,980	174,690
Retirement Expense	2,208,779	1,950,008
Settlement Fees	101,932	1,951
Sewage fees	122,104	116,172
Repairs and Maintenance	657,982	1,112,677
Utilities	1,342,871	1,341,020
Telephone Expense	56,881	53,343
Bad debts	95,526	54,883
Advertising	3,564	3,830
Amortization Expense	<u>3,440</u>	<u>51,198</u>
<b><u>TOTAL OPERATING EXPENSE</u></b>	<b><u>14,256,182</u></b>	<b><u>13,590,562</u></b>
<b><u>OPERATING LOSS</u></b>	<b><u>(3,668,374)</u></b>	<b><u>(2,931,445)</u></b>
<b><u>NON-OPERATING REVENUE (EXPENSES)</u></b>		
Gain On Sale of Assets	-	25,057
Interest Income	22,812	16,191
Interest Expense	<u>(384,158)</u>	<u>(374,508)</u>
<b><u>TOTAL NON-OPERATING REVENUE (EXPENSES)</u></b>	<b><u>(361,346)</u></b>	<b><u>(333,260)</u></b>
<b><u>LOSS BEFORE CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION</u></b>	<b><u>(\$4,029,720)</u></b>	<b><u>(\$3,264,705)</u></b>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(with prior year data for comparison purposes only)

	<u>2019</u>	<u>2018</u>
<b><u>CAPITAL CONTRIBUTIONS AND OTHER CHANGES</u></b>		
<b><u>IN NET ASSETS</u></b>		
Capital Contributions from:		
Government and State Grants	\$840,260	\$3,104,033
Customers through Tap-on Fees	<u>104,203</u>	<u>80,102</u>
<b><u>TOTAL CAPITAL CONTRIBUTIONS AND</u></b>		
<b><u>OTHER CHANGES IN NET POSITION</u></b>	<u>944,463</u>	<u>3,184,135</u>
<b><u>CHANGE IN NET POSITION</u></b>	<u>(3,085,257)</u>	<u>(80,570)</u>
<b><u>NET POSITION, BEGINNING OF YEAR</u></b>	<u>72,935,140</u>	<u>73,015,710</u>
SEE NOTE 3		
<b><u>NET POSITION, END OF YEAR</u></b>	<u>\$ 69,849,883</u>	<u>\$ 72,935,140</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(with prior year data for comparison purposes only)

	<u>2019</u>	<u>2018</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Receipts from Customers	\$10,773,644	\$10,745,482
Payment to Suppliers	(4,603,964)	(4,550,517)
Payment to Employees	(3,884,964)	(3,131,486)
<b><u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>	<u>2,284,716</u>	<u>3,063,479</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>		
(Decrease) In		
Customer Deposits	<u>6,529</u>	<u>(25,158)</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Proceeds From Tap-On Fees	104,203	80,102
Payments for rate increase		
Government Grants	840,260	3,104,033
Advances for Construction	(2,294,584)	(923,721)
Purchases of Equipment	(7,260,258)	(5,047,598)
Construction in Progress	2,300,156	1,138,766
Loan Proceeds	5,465,693	515,403
Principal Payments	(1,201,386)	(1,249,634)
Interest Payments	(390,057)	(384,297)
Proceeds from Sale of Vehicles	<u>-</u>	<u>-</u>
<b><u>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>	<u>(2,435,973)</u>	<u>(2,766,946)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Interest Income	<u>22,812</u>	<u>16,191</u>
<b><u>NET INCREASE IN CASH AND EQUIVALENTS AND RESTRICTED CASH</u></b>	<u>(121,916)</u>	<u>287,566</u>
<b><u>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR</u></b>	3,959,373	3,671,807
<b><u>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR</u></b>	<u>\$ 3,837,457</u>	<u>\$ 3,959,373</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019

"Continued"

(with prior year data for comparison purposes only)

	<u>2019</u>	<u>2018</u>
<b><u>RECONCILIATION OF OPERATING LOSS</u></b>		
<b><u>TO NET CASH PROVIDED BY</u></b>		
<b><u>OPERATING ACTIVITIES</u></b>		
Operating Loss	\$ (3,668,374)	\$ (2,931,445)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	3,955,000	3,897,004
Amortization	3,440	51,198
Increase (Decrease) in Provision for Uncollectible Accounts	-	3,000
Decrease (Increase) In:		
Customer Accounts Receivable	81,633	83,365
Other Accounts Receivable	-	-
Prepaid Expenses	(10,887)	2,053
Net Pension adjustment	1,652,958	1,350,806
Net OPEB adjustment	52,843	585,253
Inventory	(51,932)	(84,190)
Increase (Decrease) In:		
Accounts Payable Trade	207,196	108,428
Other Accrued Liabilities	62,839	(1,993)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 2,284,716</u></b>	<b><u>\$ 3,063,479</u></b>
<b>NON-CASH CAPITAL AND RELATED FINANCINGS ACTIVITIES</b>		
During the period the District purchased Vehicles in exchange for long term debt.	<u>\$ 116,392</u>	<u>\$ 122,826</u>
During the period the District completed certain construction projects that were transferred to capital assets.	<u>\$ 5,816,777</u>	<u>\$ 3,885,710</u>
Gain on Sale of Assets	<u>\$ -</u>	<u>\$ -</u>

See Accompanying notes to the basic financial statements

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Mountain Water District ("the District") conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the more significant policies:

**A. Organization**

Mountain Water District is a political subdivision of the Pike County Fiscal Court, organized under chapter 74 of the Kentucky Revised Statutes. It was formed from a merger of four existing water districts-Marrowbone Water District, Shelby Valley Water District, Pond Creek Water District, and John's Creek Water District- on June 30, 1986 and at that time assumed all assets and liabilities of the existing water districts.

The territorial limits of Mountain Water District, set by the Pike County Judge/Executive on January 20, 1987, are all of Pike County except; (1) the territory of that portion of the Sandy Valley Water District located in Pike County (2) the water services area of the City of Pikeville, and (3) special financing relationships.

**B. Reporting Entity**

The District is the basic level of government which has financial accountability and control over all activities related to the District. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncement. The Board of Commissioners have decision making authority, the power to designate management, the ability to influence operations, and the primary accountability for fiscal matters. There are no component units as defined in GASB Statement 14 and 61 which are included in the District's reporting entity.

**C. Basis of Presentation-Funds Accounting**

The accounts of the District are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

**Proprietary Funds/Enterprises Funds**

Proprietary funds and Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for accountability, capital maintenance, public policy, management control, or other purposes.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**E. Basis of Accounting**

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when obligations are incurred.

**F. Encumbrance Accounting**

The District does not use encumbrance accounting. Since effective budgetary control and accountability and cash planning and control can be facilitated without encumbrance accounting, this is not considered departure from generally accepted accounting principles. There were no unperformed contracts in process at year end which otherwise might have resulted in the need to encumber estimated expenditures.

**G. Customer Accounts Receivable**

Customer accounts receivable are stated at face value, less allowance for uncollectible accounts. Changes in the allowance are charged to operating expenses.

**H. Capital Assets**

Capital Assets, which included property, plant and equipment, are reported in the fund financial statements at historical cost.

Depreciation is recorded as an allocated expense in the Statement of Revenues, Expenses and Changes in Fund Net Position with accumulated depreciation reflected in the Statement of Financial Position. Depreciation is computed using straight-line method over the estimated useful lives of the related assets. Estimated useful lives range from 3 to 40 years.

Capital additions improvements and major renewals are capitalized, whereas maintenance, repairs and minor renewals are charged to expenses when they are incurred. In the case of disposals, the assets and related reserves are removed from the accounts and the net amount less any proceeds from disposals, is charged or credited to revenues. Most construction in progress is not capitalized until water runs through the lines.

**I. Bad Debts**

Bad debts are recognized using the reserve method of accounting for uncollectible accounts.

**J. Inventory**

Inventory is valued at lower of cost or net realizable value on a First-In, First-Out Basis. December 31, 2019 and 2018 inventory balances were \$322,595 and \$270,663 respectively.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Cash and Cash Equivalents**

For purpose of the statement of cash flows, the District considered all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

As of December 31, 2019, cash and cash equivalents restricted cash consisted of the following:

Petty Cash	\$ 320
Cash in Bank	607,197
Restricted Cash	<u>2,364,518</u>
<b>Total</b>	<b><u>\$ 2,972,035</u></b>

**L. Investment Policy**

The District's policy is to invest available funds in the following:

1. Obligations of the U.S. and its agencies and Instrumentalities.
2. Obligations and contract for future delivery of purchases of obligations backed by the full faith and credit of the U.S. or a U.S. Government agency, including but not limited to"
  - a) United States Treasury
  - b) Export-Import Bank of the United States.
  - c) USDA-Rural Development
  - d) Government National Mortgage Corporation, and
  - e) Merchant Marine Bonds
3. Obligations of any corporation of the U.S. Government.
4. Certificate of Deposit issued by other interest bearing accounts of any bank or savings and loan institutions which are issued by the Federal Deposit Insurance Corporation or similar entity of which are collateralized, to the extent uninsured, by any obligation permitted by section 41.240(4) of the Kentucky revised statutes.
5. Uncollateralized certificates of deposits issued by any bank or savings and loans institution rated in one of the three highest categories by a national recognized rating agency.
6. Bankers' Acceptance for banks rated in one of three highest categories by a nationally recognized rating agency.
7. Commercial paper rated in the highest categories by a nationally recognized rated agency.
8. Bonds or certified of indebtedness of the Commonwealth of Kentucky and of its agencies or instrumentalities.
9. Securities issued by a state or local government, or any instrumentality or agency thereof, in the U.S. , and rated in one the three highest categories by a nationally recognized rating agency.
10. Shares of mutual funds, which contain certain characteristics.

Limits on investments transactions are limited in amount in one category to 20% of the total funds invested and no investment shall be purchased on a margin basis.



**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investment policy ontinued**

The District is currently invested only in interest bearing accounts of local federal insured financial institutions, including interest bearing checking accounts and certificates.

**M. Leave Policy-Vacation/Leave Policy-Sick Leave**

The District allows full-time employees to accrue vacation leave as follows: (a) ten (10) days during the first year of employment. Employees can accrue vacation time up to a maximum of twice the annual entitlement. If an accrual of twice the annual vacation entitlement is attained, additional vacation days do not accrue. Upon termination of employment, an employee shall be paid for all accrued vacation leave.

Employees shall accrue sick leave at the rate of ten (10) days per year. Employees can accrue sick leave up to a maximum of 160 hours, after the maximum is obtained no additional sick leave is accrued. Upon termination, resignation, retirement or voluntary leave, the employee shall not be reimbursed for the accrued leave hours.

As of December 31, 2019 and 2018, the accrued liability for vacation leave was -0- and -0-, respectively.

**N. Advertising**

The District expenses advertising costs as incurred. Total advertising costs charged to expense for the years ended December 31, 2019 and 2018 are \$3,564 and \$3,830, respectively.

**O. Net Position Classifications**

In the fund financial statements, Net Position is classified as net assets and displayed in three components.

- Invested in capital assets, net of related debt-Consist of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets-Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets-All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**N. Accounting Policy for Loan Cost**

Comparative loan costs are amortized on the straight line method over the remaining life of the loan and A direct deduction from the carrying amount of the debt liability. Amortization for 2019 and 2018 was \$3,441 and charged to amortization expense. Original Deferred Financial Cost was \$92,316 for both years.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 9 - PENSION PLAN**

Plan description

The District participated in the District Employee Retirement Systems, a cost sharing multiple-employer Public Employee Retirement System, which covers its paid employees who have achieved at least one year, of service credit. For the fiscal year ended December 31, 2019 the District's covered payroll for nonhazardous positions was \$2,285,550. CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS.

That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, 40601, or by calling (502)564-4646 or at <https://kyret.ky.gov>.

Benefits provided

Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

*Benefits Provided:* Benefits fully vest upon reaching five years of service. Aspects of benefits include retirement after 27 years of service or age 65. 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.

Contributions

Funding for CERS is provided by members, who contribute 5% nonhazardous (6 % for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 21.48% nonhazardous (16.78% - pension, 4.70% insurance) of the member's salary.

The District's contribution rate was 16.22% for January through June 2019 and 19.30% for July through December 2019. The District made contributions to the plan in the approximate amount of \$502,000 for the year ended December 31, 2019.

The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

As of December 31, 2019, the District reported a liability for its proportionate share of the net pension liability of \$5,938,492. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2019 was determined using standard roll-forward techniques. The District proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2019. At June 30, 2019, the District's proportion was 0.08444% for nonhazardous employees.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 9 - PENSION PLAN(CONTINUED)**

For the year ended December 31, 2019, the District recognized pension expense of \$2,018,336 (this is from tables for pension plan year ending 06/30/19, for nonhazardous. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Nonhazardous</u>		
Difference between expected actual experience \$	\$ 151,628	
Changes in assumptions..	601,043	\$ 25,092
Net difference between projected and actual earnings on investments...	113,996...	...209,727
Changes in proportion and differences between District District contributions and proportionate share of contributions	735,569	-0-
District contributions subsequent to The measurement date	<u>295,282</u>	<u>-0-</u>
 TOTAL	 <u>\$ 1,897,518</u>	 <u>\$.234,819</u>

At December 31, 2019, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of \$295,282. These contributions will be recognized as a reduction of the net pension liability during the year ended December 31, 2020.

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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 9 - PENSION PLAN (CONTINUED)**

Year ending December 31:	
2020	\$ 1,012,273
2021	269,221
2022	79,131
2023	<u>6,792</u>
TOTAL	<u>\$ 1,367,417</u>

Actuarial Methods and Assumptions:

Inflation	2.30 percent
Payroll growth rate	2.00 percent
Salary increases	3.05% average, including inflation
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

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 long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expressed returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 9 - PENSION PLAN (CONTINUED)**

These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Nominal Rate of Return</u>
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non-U.S Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global IG Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash Equivalent	<u>2.00%</u>	<u>1.50%</u>
<b>TOTAL</b>		<b><u>100.00 %</u>      <u>6.09</u></b>
<b><u>New rates for 2019 audits</u></b>		
US Equity	18.75%	4.30%
Non-US Equity		18.75%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield		15.00%
Core Bonds		13.50%
Cash		1.00%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return		<u>15.00%</u>
		4.10%
		100.00%

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 9 - PENSION PLAN(CONTINUED)**

Discount rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investments earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 – percentage-point lower (5.25%) or 1 – percentage-point higher (7.25%) than the current rate:

Current 1% Decrease	Discount Rate	1% Increase	
	<u>(5.25%)</u>	<u>(6.25%)</u>	<u>(7.25%)</u>
Mountain Water's Share Of the net pension liability	<u>\$7,427,369</u>	<u>\$5,938,492.</u>	<u>\$4,697,527</u>

*Benefits:* The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 10 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Portion Paid by Insurance Fund</u>	
<u>Years of Service</u>	<u>Paid by Insurance Fund (%)</u>
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
< 4 Years	0.00%

*Plan description:* County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The District participates in the nonhazardous plan.

(This is what we say for plan description for OPEB piece of CERS plan)

*Contributions:* Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District's contractually required contribution rate for the year ended December 31, 2019 was 5% nonhazardous (6 % for employees hired after September 1, 2008) of covered payroll. Contributions to the Insurance Fund from the District were \$136,723 (this is for plan year and I believe should be for calendar year which per your RSI shows \$105,000) for the year ended December 31, 2019. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The District's contribution rate was 5.26% for January through June 2019 and 4.76% for July through December 2019. The District made contributions to the plan in the approximate amount of \$105,000 for the year ended December 31, 2019.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 10 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

The District 's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2019. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2019, the District's proportion for the nonhazardous was .084%.

*OPEB Liability:* For the period ending December 31, 2019, the Board reported a liability of \$1,419,839 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District 's proportion of the net OPEB liability was based on a projection of the District 's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined.

For the year ended December 31, 2019, the District recognized OPEB expense of \$190,443 (this is from tables for pension plan year ending 06/30/19, I believe that is supposed to be for the calendar year) for nonhazardous in total. The District also reported deferred outflows of recourses and deferred inflows of resources related to pensions as the following:

	Deferred Outflows Of Resources	Deferred Inflows
<u>Nonhazardous</u>		
Liability Experience	.. \$	428,398
Difference between expected actual experience	9,352	
Changes in assumptions	\$ 420,144	2,809
Net difference between projected and actual earnings on investments		72,415
Changes in proportion and differences between District contributions and proportionate share of contributions	...158,371.....	2,043
District contributions subsequent to The measurement date	<u>\$ 8,490</u>	<u>          </u>
<b>TOTAL</b>	<u><b>\$ 596,357..</b></u>	<u><b>\$505,665</b></u>



**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 10 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)(CONTINUED)**

The District's deferred outflows of resources of \$8,490 related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the year ending December 31, 2020. Other amounts reported as deferred outflows and inflows of resources as of December 31, 2019 will be recognized into OPEB expense (benefit) as follows:

Year ending December 31:	
2020	\$ 24,152
2021	24,152
2022	44,204
2023	5,710
2024	(12,876)
2025	<u>(3,140)</u>
TOTAL	<u>\$ 82,202</u>

*Net OPEB Liability:* The District 's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

**Actuarial Assumptions and Methods**

Total pension liability for CERS was determined by actuarial valuation as of June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.30 percent

Salary Increases 3.05 percent, average, including inflation

Investment Rate of Return 6.25 percent, net of pension plan investment expense, including inflation.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 10 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)(CONTINUED)**

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	26 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	2.00%
Inflation	2.30%
Salary Increase	3.30% of 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to
(Pre-65)	an ultimate trend rate of 4.05% over a period of 13 years
Healthcare Cost Trend Rates	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to
(Post-65)	an ultimate trend rate of 4.05% over a period of 11 years

For 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 the healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 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 the margin will be reviewed again, when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data., estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer time frame. The assumption is intended to be

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 10 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)(CONTINUED)**

a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

	Long Term Target <u>Allocation</u>	Nominal Rate <u>of Return</u>
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non-U.S Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global IG Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash Equivalent	<u>2.00%</u>	<u>1.50%</u>
TOTAL	<u>100.00 %</u>	<u>6.09%</u>

New rates for 2019 audits

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%
Core Bonds		13.50%	1.35%
Cash			1.00%    0.20%
Real Estate	5.00%	4.85%	
Opportunistic	3.00%	2.97%	
Real Return		<u>15.00%</u>	4.10%
			100.00%

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(CONTINUED)**

**NOTE 10 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)(CONTINUED)**

Discount Rate

The discount rates used to measure the total net OPEB liability were 5.68% nonhazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded

actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 year as of June 30, 2019).

Sensitivity of the Board's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the net OPEB liability calculated using the discount rates of 5.68%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower, (4.68%), or 1 percentage point higher, (6.68%), than the current rate:

	1% Decrease (4.68%)	Discount Rate (5.68%)	1% Increase (6.68%)
Mountain Waters's Share Of the net pension liability	<u>\$1,902,000</u>	<u>\$1,419,839</u>	<u>\$1,022,570</u>

*Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates:* The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability – Nonhazardous	\$1,055,942	\$1,419,839	\$1,861,108

OPEB Plan Fiduciary Net Position

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

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**4. CUSTOMER DEPOSIT FUND**

Deposits required from customers when they sign up for the water service are deposited into the customer deposit escrow account. When services are terminated or a customer has paid in a timely fashion, a refund of the deposit plus interest is given after a year of water service. Customer deposits as of December 31, 2019 and December 31, 2018 were \$363,550 and \$367,570 respectively, and are currently held in escrow.

**5. COMMITMENTS AND CONTINGENCIES**

The District has been committed to several construction projects that have not been either started or completed as of the date of this report.

**6. RECLASSIFICATIONS**

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform with presentation in the current year financial statements.

**7. SUBSEQUENT EVENTS**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 25, 2020 the date the financial statements were available to be issued.

As a result of the COVID-19 Coronavirus, economic uncertainties have arisen which could negatively impact the Net Position. Other financial impact could occur, however; such potential impact is unknown at this time.

**8. RESTRICTED ASSETS AND RESERVE NET POSITION**

Each of the proprietary funds has a portion of its net assets restricted in connection with assets restricted in uses, such as bond interest and redemption, depreciation, and customer deposits. Restricted net assets includes excess of restricted cash over liabilities payable from restricted cash.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**9. DEPOSITS WITH FINANCIAL INSTITUTIONS**

At December 31, 2019, the carrying amount of the District's deposits with financial institutions was \$2,972,035. The Bank balance is collateralized as follows:

Amount insured by FDIC	\$ 750,000
Amount collateralized by securities held by third party trust company in the District's name	<u>4,527,524</u>
<b>Total Bank Balance</b>	<b><u>\$ 5,277,524</u></b>

Pledged collateral was obtained for amounts up to \$3,633,923 for money on deposit at Community Trust Bank in the name of the District. Pledged collateral was obtained for accounts up to \$893,601 for money on deposit with BB&T and Community Trust Bank in the name of the District.

**10. CAPITAL ASSETS**

The following is a summary of changes in fixed asset:

	Balance January 1, <u>2019</u>	<u>Additions</u>	<u>Dispositions</u>	Balance December 31, <u>2019</u>
<b>Description</b>				
Supply & Pumping	\$3,566,550	\$ 444,469	\$ -0-	\$4,011,019
Water Treatment Equipment	13,574,780	4,267,722	-0-	17,842,502
Transmission & Distribution	93,065,241	2,547,567	-0-	95,612,808
General Plant	4,176,767	-0-	-0-	4,176,767
Land and Land Rights	567,155	500	-0-	567,655
Sewer Utility Plant	29,368,099	-0-	-0-	29,368,099
Sewer General Plant	<u>725,012</u>	<u>-0-</u>	<u>-0-</u>	<u>725,012</u>
Totals	145,043,604	7,260,258	-0-	152,303,862
Accumulated Depreciation	<u>(62,094,399)</u>	<u>(3,976,068)</u>	<u>-0-</u>	<u>(66,070,467)</u>
Net Utility Plant	<u>\$82,949,205</u>	<u>\$ 3,284,190</u>	<u>\$ -0-</u>	<u>\$86,233,395</u>
	January 1, <u>2018</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2018</u>
<b>Description</b>				
Supply & Pumping	\$3,566,550	\$ -0-	\$ -0-	\$3,566,550
Water Treatment Equipment	12,748,517	826,263	-0-	13,574,780
Transmission & Distribution	88,971,553	4,213,635	119,947	93,065,241
General Plant	4,176,767	-0-	-0-	4,176,767
Land and Land Rights	559,455	7,700	-0-	567,155
Sewer Utility Plant	29,368,099	-0-	-0-	29,368,099
Sewer General Plant	<u>725,012</u>	<u>-0-</u>	<u>-0-</u>	<u>725,012</u>
Totals	140,115,953	5,047,598	119,947	145,043,604
Accumulated Depreciation	<u>(58,317,342)</u>	<u>(3,897,004)</u>	<u>119,947</u>	<u>(62,094,399)</u>
Net Utility Plant	<u>\$81,798,611</u>	<u>\$ 1,150,594</u>	<u>\$ -0-</u>	<u>\$82,949,205</u>

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**10. CAPITAL ASSETS (Continued)**

Depreciation expense was \$3,976,067 and \$3,897,004 for the years ended December 31, 2019 and 2018, respectively.

**11. CONSTRUCTION FUNDS**

The District has several construction accounts used for the water projects. These are as follows:

	<u>2019</u>	<u>2018</u>
Big Creek Sewer Coal Settlement	\$5,401	\$ 5,401
John Creek Project	3,333	3,341
District Wide Tap Fees	85,113	68,064
Misc. Line Extensions	5,844	1,408
MWD Special Projects	374	447
Cowpen Waste Water Project	1,860	1,860
Elk Creek Project	5,372	5,372
Water Treatment Plant Upgrade	1	1
Water Treatment Raw Water Intake	25	25
LMI Service Contract	656	656
Various Short Line Extensions	191	191
Telemetry Project	100	100
Watson Hill Water Line	85	85
Long Fork Virgie Sewer Project	100	100
Belfry Pond Sewer Project	18,352	100
Smith Fork Waste Water Phase II	100	100
Pike County Fiscal Court Projects	114,127	133,981
Repair and Maintenance Reimbursement	11,474	40,508
MWD Rehabilitation Project	5,160	5,160
Sewer Customer Deposit	<u>29,693</u>	<u>27,259</u>
<b>Total Construction Funds</b>	<b><u>\$ 287,361</u></b>	<b><u>\$ 294,159</u></b>

**12. RESTRICTED ASSETS AND RESERVE NET POSITION**

As of December 31 ,2019 and 2018 restricted cash were as follows:

	<u>2019</u>	<u>2018</u>
Depreciation Reserve	\$ 857,680	\$ 851,513
Sinking Fund	558,538	670,983
Customer Deposit Escrow Account	372,930	379,459
Operation & Maintenance reserve	258,192	180,108
Waste Water O & M Reserve	869,003	868,234
Recycling Account	26,236	5,711
Construction Account	<u>287,361</u>	<u>294,159</u>
<b>Total Restricted Cash</b>	<b><u>\$3,229,940</u></b>	<b><u>\$3,250,167</u></b>

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**13. RESTRICTED ASSETS AND RESERVE NET ASSETS Continued)**

The District is required by debt covenants to pay into and maintain a Depreciation Reserve Fund, a Repair and Maintenance Fund and Operation and Maintenance Fund. These Amounts may be used for extraordinary maintenance expenses related to the project or for costs of replacing worn obsolete portions of the project. If Amounts are withdrawn from said funds, the District must make required periodic deposits until the required balance is reinstated.

	<b>Maximum Required Balance</b>	<b>Required Balance at 12/31/19</b>	<b>Actual Balance At 12/31/19</b>
Depreciation Reserve Funds	\$852,060	\$ 852,060	\$ 857,680
Repairs and Maintenance Funds	\$ 1,048,168	<u>882,868</u>	<u>1,127,195</u>
<b>Total</b>		<u><u>\$1,734,928</u></u>	<u><u>\$1,984,875</u></u>

The Repair and Maintenance Funds required by Kentucky Infrastructure Authority (KIA) loan agreements are fully funded.

The Depreciation Reserve Funds Required by USDA-Rural Development (RD) loan requirements are fully funded.

The USDA-Rural Development (RD) loan agreements also include a requirement for an Operation and Maintenance Fund. The funding of this reserve is secondary to the Depreciation Reserve Funds. Mountain Water's management stated during the field work that there is verbal agreement to transfer \$6,000 monthly O & M reserve to Rural Development Reserves until equal to 6 months revenue. These payments were transferred during 2019.



**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**14. CONSTRUCTION IN PROGRESS**

Mountain Water District has overseen several construction projects. As of December 31, 2019 and 2018, the following projects were in progress.

	<u>2019</u>	<u>2018</u>
<b><u>Water Projects</u></b>		
FEMA Mitigation Project	\$ 6,064	\$ -0-
Tank Rehab Southern Corrosion	-0-	-0-
Jonican	-0-	-0-
Bad Fork	-0-	-0-
Pompey	-0-	-0-
Majesterial District 2	-0-	-0-
Various In House Projects	16,736	128,729
<b><u>Sewer Projects</u></b>		
Phelps/Buskirk	134,438	118,038
Residential Grinder Replacement	-0-	-0-
Henry Clay	138,708	138,708
Belfry Pond Sewer	2,479,266	855,393
Douglas	-0-	<u>3,834,500</u>
<b><u>Total Construction in Progress</u></b>	<u>\$ 2,775,212</u>	<u>\$ 5,075,368</u>

**15. BONDS PAYABLE**

	<u>2019</u>	<u>2018</u>
Shelby Waste Water Project Fund		
The 4.125% sewer system revenue bonds issued July 22, 2005 in the original amount of \$740,000 are payable to USDA-Rural Development to the year 2045. The bonds are secured by a statutory mortgage lien on the utility plant service and a pledge of all water revenues from the system	\$608,000	\$621,000
Phelps Waste Water Project Bond		
The 4.5% sewer system revenue bonds issued October 23, 2003 in the original amount of \$426,000 are payable to USDA-Rural Development to the year 2043. The bonds are secured by a statutory mortgage lien on the utility plant in service and a pledge of all water revenues from the system.	341,500	349,500

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENT**  
**DECEMBER 31, 2019 AND 2018**

**16 BONDS PAYABLE (Continued)**

	<u>2019</u>	<u>2018</u>
Fedscreek Project		
The 3.5% revenue bonds issued July 2002 in the original amount of \$800,000 are payable to USDA-Rural Development to the year 2035. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and a pledge of all water revenues from the system.	\$592,000	\$609,000
Johns Creek		
The 4.125% revenue bonds issued November 2005 in the original amount of \$1,650,000 are payable to USDA-Rural Development to the year 2027. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and a pledge of all water revenues from the system.	1,384,000	1,412,000
Russell Fork Water Plant Project		
The 4.5% revenue bonds issued April 2009 in the original amount of \$650,000 are payable to USDA-Rural Development to the year 2047. The bonds are secured by a secondary statutory mortgage lien on the utility plant in service and pledge of all water revenue from the system.	\$ 575,000	\$ 585,000
Total bonds	\$3,500,500	\$ 3,576,500
Less current portion	(78,500)	(75,000)
Long Term Bonds Payable	<u>\$3,422,000</u>	<u>\$3,501,500</u>

Maturities of these long-term bonds are as follows:

December 31	<u>Principal</u>	<u>Interest</u>
2020	78,500	141,295
2021	81,000	138,491
2022	86,000	135,423
2023	88,100	131,944
2024	87,500	129,248
2025-2029	543,000	583,012
2030-2034	644,500	498,489
2035-2039	795,500	339,479
2040-2044	848,500	176,173
2045-2049	247,900	31,522
2050-2054	-0-	-0-
	<u>\$3,500,500</u>	<u>\$2,305,076</u>

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**16. NOTES PAYABLE AND CAPITAL LEASES**

	<u>2019</u>	<u>2018</u>
Kentucky Rural Water Finance Corporation The 3.14% note issued August 2012 120 the original amount of \$6,270,000, payable in monthly installments, with payments through August 2039, secured by water revenues from the system.	\$ 3,920,000	\$ 4,300,000
Kentucky Infrastructure Authority-Multi-Area The 2.9% note issued June 1994 in the original Amount of \$5,165,093, payable in semi-annual Installments of \$129,479, with payments through the year 2023, secured by water revenues from the system.	971,388	1,197,252
Kentucky Infrastructure Authority-Indian Creek The 3% note issued June 1994 in the original amount of \$377,760, payable in semi-annual installments of \$8,577, with payments though the year 2023, secured by water revenue from the system.	64,206	79,098
Kentucky Infrastructure Authority-F01-07 The 1.8% note issued January 2002 in the original amount of \$1,197,072 payable in semi-annual of \$35,769, with payments through the year 2024 secured by water revenues from the system.	307,902	373,074
Kentucky Infrastructure Authority A03-06 The 1% note issued June 2004 in the original Amount of \$226,776, payable in semi-annual Installments of \$6,846 with payments through the year 2023, secured by water revenues from the system.	49,683	59,236
Kentucky Infrastructure Authority A209-32 The 1% note issued January 2010 in the original amount of \$750,000 with \$390,750 in principle forgiveness, payable in semi-annual installments of \$5,212, with payments through the year 2031, secured by water revenues from the system.	220,027	237,993

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENT**  
**DECEMBER 31, 2019 AND 2018**

**,16 NOTES PAYABLE AND CAPITAL LEASES (Continued)**

	<u>2019</u>	<u>2018</u>
Kentucky Infrastructure Authority-Multi-Area The .75% note issued June 2019 in the original Amount of \$3,419,563, payable in semi-annual Installments of \$92,262, with payments through the year 2038, secured by water revenues from the system.	\$ 3,261,934	\$ -0-
<u>Community Trust Bank</u> A purchase agreement, original balance \$29,128 at 4.0% interest, secured by vehicle; payments are \$660 for 48 months, maturing April 2020.	1,956	9,630
<u>US Bank</u> A purchase agreement, original balance \$26,853 at 3.0% interest, secured by vehicle; payments are \$568 for 25 months, maturing July 2018.	3,571	10,462
<u>Community Trust Bank</u> A purchase agreement, original balance \$22,111 at 4.0% interest, secured by vehicle; payments are \$500 for 48 months, maturing September 2020	4,417	10,110
<u>Community Trust Bank</u> A purchase agreement, original balance \$22,111 at 4.0% interest, secured by vehicle; payments are \$500 for 48 months, maturing September 2020	4,416	10,110
<u>US Bank</u> Loan to finance Big Fork Project, original balance \$272,145 at 3.1% interest; payments are \$4,153 beginning June 26, 2016 for 24 months, maturing December 2021	97,249	139,333
<u>Community Trust Bank</u> A lease purchase agreement, original balance \$52,797; at 4.567% interest; secured by 2 vehicles; payments are \$1,192 for 48 months maturing October 2022.	39,938	50,209

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**16. NOTES PAYABLE AND CAPITAL LEASES (Continued)**

	<u>2019</u>	<u>2018</u>
<u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$29,119; at 2.01% interest; secured by a vehicle; payments are \$658 for 48 months and a final maturing June 2020.	-0-	3,253
<u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$92,577; at 3.0% interest; secured by a Excavator; payments are \$3,959 for 24 months maturing September 2020.	\$ 39,136	\$ 85,038
<u>USDA RD Loan 1940-1</u>		
USDA Note for Radio Read Replacement Project Step rate payment schedule of 40 years at 3.125% Interest rate starting with \$87,942 interest and Principal in 2021 and maturing in 2061 secured by water revenues from the system.	1,929,738	-0-
<u>Wells Fargo Financial</u>		
A lease purchase agreement, original balance \$44,560; at 3.41% interest; secured by a Kobelco Excuvator; payments are \$1,918 for 24 month, maturing June 2021.	37,237	-0-
<u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$24,092; at 4.5% interest; secured by a vehicle; payments are \$550 for 24 months and a final balloon payment of \$12,596, maturing March 2021.	19,905	-0-
<u>US BANK</u>		
A lease purchase agreement, original balance \$33,789; at 3.853% interest; secured by a vehicle; payments are \$761 for 28 months, maturing 2021.	15,424	23,788
<u>US BANK</u>		
A lease purchase agreement, original balance \$22,814; at 3.8% interest; secured by a vehicle; payments are \$514 for 48 months maturing in 2021.	-0-	15,132

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

<b><u>,16. NOTES PAYABLE AND CAPITAL LEASES (Continued)</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
Kentucky Infrastructure Authority A16-079 The .75% note issued August 2018 in the original Amount of \$300,000, payable in semi-annual Installments of \$7,408 with payments through the year 2037, secured by water revenues from the system.	271,436	285,470
<u>Community Trust Bank</u> A purchase agreement, original balance \$30,198 at 4.051% interest, secured by vehicle; payments are \$683 for 48 months, maturing March 2020.	2,025	9,961
<u>Community Trust Bank</u> A purchase agreement, original balance \$23,799 at 4.054% interest, secured by vehicle; payments are \$598 for 48 months, maturing May 2022.	14,835	20,508
<u>Community Trust Bank</u> A purchase agreement, original balance \$22,042 at 4.054% interest, secured by vehicle; payments are \$498 for 48 months, maturing March 2022.	12,836	18,180
<u>Community Trust Bank</u> A purchase agreement, original balance \$28,897 at 4.18% interest, secured by vehicle; payments are \$655 for 48 months, maturing March 2021.	9,928	16,788
<u>Community Trust Bank</u> A purchase agreement, original balance \$47,740 at 4.5% interest, secured by vehicle; payments are \$1090 for 24 months, Balloon Pmt. on March 2021.	39,439	-0-
<u>US BANK</u> A lease purchase agreement, original balance \$22,849; at 3.754% interest; secured by a vehicle; payments are \$513 for 48 months maturing in 2021.	-0-	14,680

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**16. NOTES PAYABLE AND CAPITAL LEASES (Continued)**

Community Trust Bank

A lease purchase agreement, original balance  
\$24,879; at 4.053% interest; secured by a vehicle;  
Payments are \$560 for 48 months  
maturing May 2022.

	<u>15,452</u>	<u>21,510</u>
Total Notes Payable and Capital Leases	11,344,078	6,990,815
Less current portion	<u>(1,061,714)</u>	<u>(939,257)</u>
Total Long-term Portion	<u>\$10,282,364</u>	<u>\$6,051,558</u>

Maturity of the notes payable and capital leases are as follows:

	<u>Principal</u>	<u>Interest</u>
2020	1,061,714	71,758
2021	932,913	84,901
2022	820,876	71,277
2023	821,525	59,469
2024	526,966	54,983
2025-2029	2,668,879	224,953
2030-2034	2,118,415	182,601
2035-2039	1,548,781	133,499
2040-2044	416,714	102,429
2045-2049	426,295	79,939
	<u>\$11,344,078</u>	<u>\$1,065,809</u>

**17. ADVANCES FOR CONSTRUCTION**

	<u>2019</u>	<u>2018</u>
<b><u>Water Projects</u></b>		
In House Projects	\$ 111,824	\$ 220,309
<b><u>Sewer Projects</u></b>		
Phelps Waste Water		
Kentucky Infrastructure Authority	124,510	108,110
Douglas WTP		
LGEDF Funds	-0-	3,826,373
Henry Clay Sewer Projects:		
COE Section 531	45,391	45,391
LGEDF Funds	92,640	92,640
Belfry Pond		
Rural Development	1,538,016	
Coal Severance	<u>941,250</u>	<u>855,393</u>
<b><u>Total Advances for Construction</u></b>	<u>\$2,853,632</u>	<u>\$ 5,148,216</u>

**MOUNTAIN WATER DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

<b><u>Federal Grantor/Pass-through Grantor/Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>
U.S. Department of Agriculture Water and Waste Disposal Systems For Rural Communities	10-760-1	\$3,467,754
U.S. Department of Homeland Security Hazard Mitigation GRANT(HMGP)	97.039	7,768
Total		<u>\$ 3,475,552</u>

**Reconciling items to the Financial statements**

(See Construction in Progress and fixed assets)

<b>Construction in Progress Pg. 36</b>	
Belfry Pond	<u>\$ 1,538,016</u>
<b>Fixed Assets Pg. 27</b>	
Transmission and Distribution	<u>1,929,738</u>
<b>Fixed Assets Pg. 27</b>	
Water Treatment Equipment	<u>7,768</u>
Total Federal Revenue per Financial Statements:	<u>\$ 3,475,552</u>

See Accompanying Note



**MOUNTAIN WATER DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Mountain Water District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements by title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, **Audits of States, Local Governments, and Non-Profit Organizations**. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Mountain Water District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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**INDEPENDENT AUDITORS'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**

To the Board of Commissioners  
Mountain Water District  
Pikeville, KY

I 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 Mountain Water District as of and for the year December 31, 2019, and the related notes to the financial statements, which collectively comprise Mountain Water District's basic financial statements, and have issued my report thereon dated September 25, 2020.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Mountain 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of Mountain Water District internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented; or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies; in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mountain Water District's financial statements are free from material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Richard F. Paulmann, CPA, LLC.  
Pewee Valley, KY  
September 25, 2020

**RICHARD F. PAULMANN, LLC**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**301 MOUNT MERCY ROAD**  
**PEWEE VALLEY, KY 40056**  
**(502) 550-1568**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

September 25, 2020

To the Board of Directors  
Mountain Water District  
Pikeville, KY

**Report on Compliance for Each Major Program**

I have audited the compliance of Mountain Water District's, with the types of compliance requirements described in the **(OMB) Compliance Supplement** that could have a direct and material effect on each of Mountain Water District's major federal programs for the year ended December 31, 2019. Mountain Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost.

**Management's Responsibilities**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of Mountain Water District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mountain Water District's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Mountain Water District's compliance.

**Opinion on Each Major Federal Program-**

In my opinion, Mountain Water District's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of Mountain Water District's major programs for the year ended December 31, 2019.

See accompanying notes

### **Report on Internal Control Over Compliance**

The management of Mountain Water District's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Mountain Water District's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mountain Water District's internal control over compliance.

A *deficiency* in internal control over compliance exist when the design of operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of the section and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Richard F. Paulmann, LLC  
September 25, 2020

See accompanying notes

MOUNTAIN WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of Mountain Water District..
2. No material weakness was identified on internal control over financial reporting. No significant deficiencies were reported
3. No instances of noncompliance material to the financial statements of Mountain Water District were disclosed during the audit.
4. No material weakness over in internal control over major program were identified during the audit of the major federal award programs. No significant deficiencies were reported
5. The auditor's report on compliance for the major federal award programs for Mountain Water District expresses an unmodified opinion.
6. Audit findings, if any, relative to the major federal award programs for Mountain Water District are reported on Part C of this Schedule.
7. The programs tested as major programs included:
  - a. 97.039 U.S. Department of Homeland Security Hazard Mitigation Grant.
  - b. 10-760 U.S. Department of Agriculture Water and Waste Systems For Rural Communities.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Mountain Water District was determined to be a high-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

No Findings

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No Findings

See accompanying notes

MOUNTAIN WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2019

DEPARTMENT OF AGRICULTURE

DEPARTMENT OF HOMELAND SECURITY

There were no prior audit findings noted.

See accompanying notes

## REQUIRED SUPPLEMENTARY INFORMATION



MOUNTAIN WATER DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2019

A. **Comments on Findings and Recommendations**

All findings have been addressed and cleared.

B. **Action Taken or Planned**

All findings have been addressed as recommended by reviewer.

C. **Status of Corrective Actions on Prior Findings**

There were no findings noted in prior year's audit report.

See accompanying notes

REQUIRED SUPPLEMENTARY INFORMATION

**MOUNTAIN WATER DISTRICT**  
**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

PENSION	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	Plan valuation date
	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	Calendar year
	NH	NH	NH	NH	NH	
Prop NPL	0.08444%	0.08170%	0.07050%	0.00492%	0.00499%	these are for the 6/30 valuation date
Prop share of NPL	5,938,000	4,976,000	4,127,000	242,000	163,000	these are for the 6/30 valuation date
Payroll	2,286,000	2,081,000	1,966,000	857,000	150,000	these are for the 6/30 valuation date
Share of NPL as % of payroll	259.76%	239.12%	209.92%	28.24%	108.67%	these are for the 6/30 valuation date
Plan fiduciary net position as % of TPL	50.45%	53.54%	53.32%	55.50%	59.97%	these are for the 6/30 valuation date
Contractually required contribution	502,000	524,000	485,000	194,000	26,000	these are for calendar year end
Actual contribution	(502,000)	(524,000)	(485,000)	(194,000)	(26,000)	these are for calendar year end
Contribution deficiency (excess)	-	-	-	-	-	these are for calendar year end
Payroll	2,286,000	2,081,000	1,966,000	782,000	116,000	these are for calendar year end
Contributions as % of payroll	22%	25%	25%	25%	22%	these are for calendar year end
Contribution rates - Pension	16.22%	14.48%	13.95%	12.42%	12.75%	

**MOUNTAIN WATER DISTRICT**  
**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF OPEB CONTRIBUTIONS**

OPEB	6/30/2019	6/30/2018	6/30/2017	Plan valuation date	
	12/31/2019	12/31/2018	12/31/2017	Calendar year	
	NH	NH	NH		
Prop Net OPEB Liability	0.084440%	0.081700%	0.070500%	these are for the PY valuation date	
Prop share of Net OPEB Liability	1,420,000	1,450,000	1,417,000	these are for the PY valuation date	
Payroll	2,286,000	2,081,000	1,966,000	these are for the PY valuation date	
Share of NOPL as % of payroll	62.12%	69.68%	72.08%	these are for the PY valuation date	
Plan fiduciary net position as % of TOL	60.44%	57.62%	52.39%	these are for the PY valuation date	
Contractually required contribution	105,000	95,000	82,000	these are for calendar year end	
Actual contribution	(105,000)	(95,000)	(82,000)	these are for calendar year end	
Contribution deficiency (excess)	-	-	-	these are for calendar year end	
Payroll	2,286,000	2,081,000	1,966,000	these are for calendar year end	
Contributions as % of payroll	4.59%	4.57%	4.17%	these are for calendar year end	
Contribution rates - OPEB	5.26%	4.70%	4.73%	4.64%	4.92%
Total Rates combined	21.48%	19.18%	18.68%	17.06%	17.67%

Contribution Rates	Pension	OPEB	NH	Pension	OPEB	HAZ
	NH	NH	TOTAL	HAZ	HAZ	TOTAL
6/30/2014	13.74%	5.15%	18.89%	21.77%	13.93%	35.70%
6/30/2015	12.75%	4.92%	17.67%	20.73%	13.58%	34.31%
6/30/2016	12.42%	4.64%	17.06%	20.26%	12.69%	32.95%
6/30/2017	13.95%	4.73%	18.68%	21.71%	9.35%	31.06%
6/30/2018	14.48%	4.70%	19.18%	22.20%	9.35%	31.55%
6/30/2019	16.22%	5.26%	21.48%	24.86%	10.48%	35.34%
6/30/2020	19.30%	4.76%	24.06%	30.06%	9.52%	39.58%
			0.00%			0.00%
			0.00%			0.00%
			0.00%			0.00%

See Accompanying Notes