

**MOUNTAIN WATER DISTRICT**

**REPORT OF AUDIT**

**DECEMBER 31, 2020**

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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, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Mountain Water District's basic financial statement 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 my audit. I conducted my 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 I 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 procedure selected depends 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 presentations 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, I 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 evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Mountain Water District, as of December 31, 2020 and 2019, and the respective changes in financial position and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 4-6 and pension schedules and OPEB on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial statements in an appropriate operational, economic, or historical context. I 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 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide 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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Mountain Water District  
Opinion letter  
Pg. 3

**Other Reporting Required by Governmental Auditing Standards**

In accordance with Governmental Auditing Standards, I have also issued my report dated September 24, 2021, on my consideration of Mountain Water District's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering Mountain Water District's internal control over financial reporting and compliance.



Richard F. Paulmann CPA, LLC  
Pewee Valley, KY  
September 24, 2021

**MOUNTAIN WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

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, 2020. 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 assets decreased this year by \$3,423,069
- from operating activities and before capital contributions.
- The District's total long-term debt increased by \$3,659,912 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 Assets and the Statement of Activities. 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, 2020**  
**(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 Assets 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 \$181,411 (1.71%). The decrease was the result of a loss of customers of 1% as well and no late charges due to COVID. Total cost of all programs and services (including depreciation) decreased by \$859,765 (6%). Interest expense increased by \$57,433, due in large part to the issuance of bonds for 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 assets of \$66,875,162, which is an decrease of \$2,974,721 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 \$18,730,185 to be paid from utility revenues.

As of December 31, 2020, the District received advances for construction towards projects not completed in the amount of \$4,549,090. During 2020, various construction projects were completed allowing the advances for construction from the prior year in the amount of \$359,743 to be transferred to capital contributions from government grants.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(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, KY 41502, telephone number (606) 631-9162.



MOUNTAIN WATER DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2020  
(with prior year data for comparison purposes only)

	2020	2019
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS</u></b>		
Cash and Cash Equivalents	\$ 392,243	\$ 607,517
Accounts Receivable (Net of Allowance for Delinquencies of \$38,000 in 2020 and \$41,000 in 2019)	1,225,775	1,074,100
Prepaid Expenses	56,749	45,485
Inventory	279,476	322,595
<b>TOTAL CURENT ASSETS</b>	<b>1,954,243</b>	<b>2,049,697</b>
<b><u>NONCURRENT ASSETS</u></b>		
<b>Restricted Cash</b>		
Cash-Depreciation Reserve	861,058	857,680
Cash-Construction	437,529	257,398
Cash-Customer Deposits	455,206	402,893
Cash-Recycling Account	38,415	26,236
Cash-Operation and Maintence Reserve	337,687	258,192
Cash-Wastewater Operation and Maintenance Reserve	869,874	869,003
Cash-Sinking Fund	486,203	558,538
<b>TOTAL RESTRICTED CASH</b>	<b>3,485,972</b>	<b>3,229,940</b>
<b>Capital Assets</b>		
Supply & Pumping	4,384,665	4,011,019
Water Treatment Equipment	18,433,906	17,842,502
Transmission & Distribution	96,988,619	95,912,808
General Plant	4,176,767	4,176,767
Land and Land Rights	578,640	567,655
Sewer Utility Plant	29,368,099	29,368,099
Sewer General Plant	725,012	725,012
Total Capital Assets	154,655,708	152,603,862
Less: Accumulated Depreciation	(70,148,578)	(66,070,467)
Net Capital Assets	84,507,130	86,533,395
Construction in Progress	8,531,354	2,775,212
<b>OTHER ASSETS</b>		
Deposit on Leased Vehicles	625	625
FEMA receivable	3,733	3,733
<b>TOTAL OTHER ASSETS</b>	<b>4,358</b>	<b>4,358</b>
<b><u>TOTAL NONCURRENT ASSETS</u></b>	<b>96,528,814</b>	<b>92,542,905</b>
<b><u>TOTAL ASSETS</u></b>	<b>\$ 98,483,057</b>	<b>\$ 94,592,602</b>
<b><u>DEFERRED OUT FLOW OF RESOURCES</u></b>		
Deferred Pension Contributions	\$ 1,116,973	\$ 1,897,518
Deferred OPEB	945,611	\$ 596,357
<b><u>TOTAL OUT FLOW RESOURCES</u></b>	<b>\$ 2,062,584</b>	<b>\$ 2,493,875</b>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT  
STATEMENT OF NET POSITION (CONTINUED)  
December 31, 2020  
(with prior year data for comparison purposes only)

	<u>2020</u>	<u>2019</u>
<b><u>LIABILITIES</u></b>		
<b><u>CURRENT LIABILITIES</u></b>		
Accounts Payable Trade	\$ 261,424	\$ 431,951
Other Accrued Liabilities	86,425	135,526
Accrued Interest	217,837	138,617
Customer Deposits	368,136	363,550
Line of Credit	439,090	137,285
Bonds Payable, Current	122,000	78,500
Notes Payable and Capital Leases, Current	<u>1,243,909</u>	<u>1,061,714</u>
<b>TOTAL CURRENT LIABILITIES</b>	2,738,821	2,347,143
<b><u>LONG-TERM LIABILITIES</u></b>		
Bonds Payable, Long-Term	10,102,000	3,422,000
Notes Payable and Capital		
Net Pension Liability	6,521,501	5,938,492
Net OPEB Liability	2,052,540	1,419,839
Leases, Long-Term	7,262,276	10,282,364
Advances For Construction	4,549,090	2,853,632
Less - Deferred Financing Cost	<u>(63,919)</u>	<u>(67,360)</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	30,423,488	23,848,967
<b><u>TOTAL LIABILITIES</u></b>	<u>33,162,309</u>	<u>26,196,110</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Deferred Pension Investment Earnings	119,493	234,819
Deferred OPEB	<u>388,677</u>	<u>505,665</u>
	<u>508,170</u>	<u>740,484</u>
<b><u>NET POSITION</u></b>		
Invested in Capital Assets, Net of Related Debt	65,776,945	71,388,817
Restricted for:		
Construction	437,529	287,361
Depreciation, Maintenance and Replacement- Capital Assets	2,506,148	2,272,236
Customer Deposits	87,070	9,380
Unrestricted (Deficit)	<u>(1,932,530)</u>	<u>(4,107,911)</u>
<b><u>TOTAL NET POSITION</u></b>	<u>66,875,162</u>	<u>69,849,883</u>

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, 2020  
(with prior year data for comparison purposes only)

	<u>2020</u>	<u>2019</u>
<b><u>OPERATING REVENUE</u></b>		
Metered Sales-Residential	\$6,951,474	\$6,763,894
Metered Sales-Commercial	626,190	578,277
Sewage Revenue	1,948,039	2,084,578
Metered Sales-Multi-Family	287,528	300,180
Metered Sales-Public Authorities	384,882	402,701
Customer Late Payment Charges	40,241	221,616
Other Water Service Revenue	42,843	37,919
Service Connection Fees	64,771	142,183
Metered Sales-Industrial	59,379	55,360
Fire Protection Revenue	1,050	1,100
<b><u>TOTAL OPERATING REVENUE</u></b>	<b>10,406,397</b>	<b>10,587,808</b>
<b><u>OPERATING EXPENSES</u></b>		
Depreciation	4,078,111	3,955,000
Water Purchased	1,193,197	1,341,341
Material and Supplies	580,591	660,998
Wages	2,165,689	2,338,303
Contract Service-Accounting	72,788	50,971
Education, Dues and Meetings	149,531	129,805
Employee Benefits	521,658	662,118
Contract Service-Legal Engineering	165,752	294,222
Easements	1,600	10,955
PSC Tax Assessment	16,376	19,410
Payroll Taxes	164,864	199,980
Retirement Expense	1,928,800	2,208,779
Settlement Fees	-	101,932
Sewage fees	160,740	122,104
Repairs and Maintenance	885,956	657,982
Utilities	1,245,924	1,342,871
Telephone Expense	59,233	56,881
Bad debts	-	95,526
Advertising	2,167	3,564
Amortization Expense	3,440	3,440
<b><u>TOTAL OPERATING EXPENSE</u></b>	<b>13,396,417</b>	<b>14,256,182</b>
<b><u>OPERATING LOSS</u></b>	<b>(2,990,020)</b>	<b>(3,668,374)</b>
<b><u>NON-OPERATING REVENUE (EXPENSES)</u></b>		
Gain On Sale of Assets	-	-
Interest Income	8,542	22,812
Interest Expense	(441,591)	(384,158)
<b><u>TOTAL NON-OPERATING REVENUE (EXPENSES)</u></b>	<b>(433,049)</b>	<b>(361,346)</b>
<b><u>LOSS BEFORE CAPITAL CONTRIBUTIONS AND OTHER CHANGES IN NET POSITION</u></b>	<b>(\$3,423,069)</b>	<b>(\$4,029,720)</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, 2020  
(with prior year data for comparison purposes only)

	<u>2020</u>	<u>2019</u>
<b><u>CAPITAL CONTRIBUTIONS AND OTHER CHANGES</u></b>		
<b><u>IN NET ASSETS</u></b>		
Capital Contributions from:		
Government and State Grants	\$359,743	\$840,260
Customers through Tap-on Fees	<u>88,605</u>	<u>104,203</u>
<b><u>TOTAL CAPITAL CONTRIBUTIONS AND</u></b>		
<b><u>OTHER CHANGES IN NET POSITION</u></b>	<u>448,348</u>	<u>944,463</u>
<b><u>CHANGE IN NET POSITION</u></b>	<u>(2,974,721)</u>	<u>(3,085,257)</u>
<b><u>NET POSITION, BEGINNING OF YEAR</u></b>	<u>69,849,883</u>	<u>72,935,140</u>
SEE NOTE 3		
<b><u>NET POSITION, END OF YEAR</u></b>	<u>\$ 66,875,162</u>	<u>\$ 69,849,883</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(with prior year data for comparison purposes only)

	<u>2020</u>	<u>2019</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Receipts from Customers	\$10,254,722	\$10,773,644
Payment to Suppliers	(4,515,121)	(4,603,964)
Payment to Employees	(3,572,831)	(3,884,964)
<b><u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>	<u>2,166,770</u>	<u>2,284,716</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>		
Increase		
Customer Deposits	<u>52,313</u>	<u>6,529</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Proceeds From Tap-On Fees	88,605	104,203
Payments for rate increase		
Government Grants	359,743	840,260
Advances for Construction	1,695,458	(2,294,584)
Purchases of Equipment	(2,351,846)	(7,260,258)
Construction in Progress	(5,756,142)	2,300,156
Loan and LOC Proceeds	7,316,773	5,465,693
Principal Payments	(3,097,867)	(1,201,386)
Interest Payments	(441,591)	(390,057)
Proceeds from Sale of Vehicles	<u>-</u>	<u>-</u>
<b><u>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>	<u>(2,186,867)</u>	<u>(2,435,973)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Interest Income	<u>8,542</u>	<u>22,812</u>
<b><u>NET INCREASE IN CASH AND EQUIVALENTS AND RESTRICTED CASH</u></b>	<u>40,758</u>	<u>(121,916)</u>
<b><u>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR</u></b>	3,837,457	3,959,373
<b><u>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR</u></b>	<u>\$ 3,878,215</u>	<u>\$ 3,837,457</u>
Cash and Cash Equivalents	392,243.00	607,517.00
Total Restricted Cash	<u>\$ 3,485,972</u>	<u>\$ 3,229,940</u>
Combined	<u>3,878,215</u>	<u>3,837,457</u>

See Accompanying notes to the basic financial statements

MOUNTAIN WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2020

"Continued"

(with prior year data for comparison purposes only)

	<u>2020</u>	<u>2019</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	\$ (2,990,020)	\$ (3,668,374)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	4,078,111	3,955,000
Amortization	3,440	3,440
Increase (Decrease) in Provision for Uncollectible Accounts		
Decrease (Increase) In:		
Customer Accounts Receivable	(151,675)	81,633
Other Accounts Receivable		
Prepaid Expenses	(11,264)	(10,887)
Net Pension adjustment	1,101,132	1,652,958
Net OPEB adjustment	313,555	52,843
Inventory	43,119	(51,932)
Increase (Decrease) In:		
Accounts Payable Trade	(170,527)	207,196
Other Accrued Liabilities	(49,101)	62,839
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 2,166,770</u></b>	<b><u>\$ 2,284,716</u></b>
<b><u>NON-CASH CAPITAL AND RELATED FINANCINGS ACTIVITIES</u></b>		
During the period the District purchased Vehicles in exchange for long term debt.	<u>\$ 177,979</u>	<u>\$ 116,392</u>
During the period the District completed certain construction projects that were transferred to capital assets.	<u>\$ 1,436,284</u>	<u>\$ 5,816,777</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, 2020 AND 2019**

**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, 2020 AND 2019**

**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, 2020 and 2019 inventory balances were \$279,476 and \$322,595 respectively.



**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**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, 2020, cash and cash equivalents restricted cash consisted of the following:

Petty Cash	\$ 320
Cash in Bank	391,923
Restricted Cash	<u>3,485,972</u>
<b>Total</b>	<b><u>\$ 3,878,215</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, 2020 AND 2019**

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

**Investment policy continued**

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, 2020 and 2019, 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, 2020 and 2019 are \$2,167 and \$3,564, 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 2020 and 2019 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, 2020**  
**(CONTINUED)**

**NOTE 2 - 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, 2020 the District's covered payroll for nonhazardous positions was \$2,081,411 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.

Contributions

Funding for CERS is provided by members, who contribute 5% nonhazardous (.006% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 24.06% nonhazardous (19.38% - pension, 4.76% insurance) of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

As of December 31, 2020, the District reported a liability for its proportionate share of the net pension liability. 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, 2020. An expected total pension liability as of June 30, 2020 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, 2020 .

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
**(CONTINUED)**

**NOTE 2 - PENSION PLAN (CONTINUED)**

For the year ended December 31, 2020, the District recognized pension expense of \$1,615,245 for nonhazardous. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of	Deferred Inflows of
Resources	Resources	
<u>Nonhazardous</u>		
Difference between expected actual experience \$	\$ 162,626	
Changes in assumptions.	254,654	\$ -0-
Net difference between projected and actual earnings on investments..	282,685..	...119,493
Changes in proportion and differences between District District contributions and proportionate share of contributions	175,054	-0-
District contributions subsequent to The measurement date	<u>241,954</u>	
 TOTAL	 <u>\$ 1,116,973</u>	 <u>.\$ 119,493</u>

At December 31, 2020, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of \$389,050. 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, 2020**  
**(CONTINUED)**

**NOTE 2 - PENSION PLAN (CONTINUED)**

Year ending December 31:	
2021	\$ 399,686
2022	208,973
2023	81,325
2024	<u>65,542</u>
TOTAL	<u>\$ 755,526</u>

Actuarial Methods and Assumptions:

Inflation	2.30 percent
Salary increases	3.30% 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, 2020**  
**(CONTINUED)**

**NOTE 2 - 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:

	Long Term	
	<u>Target</u>	<u>Nominal Rate</u>
	<u>Allocation</u>	<u>of Return</u>
US Equity	18.75%	4.3%
Non-U.S Equity	18.75%	4.80%
Private Equity	10.0%	6.65%
Special Credit/High Yield	15.0%	2.6%
Core Bonds	13.5%	1.35%
Real Estate	5.0%	4.85%
Opportunistic	3.0%	2.97%
Real Return	15.0%	4.10%
Cash Equivalent	<u>1.0%</u>	.2%
TOTAL	<u>100. %</u>	

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:

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
**(CONTINUED)**

**NOTE 2 - PENSION PLAN (CONTINUED)**

	Current 1% Decrease <u>(5.25%)</u>	Discount Rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
Mountain Water's Share Of the net pension liability	\$8,042,429	<u>\$6,521,501</u>	<u>\$5,262,114</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, 2020**  
**(CONTINUED)**

**NOTE 3 – 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:

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
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, 2020 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, 2020. 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 2020 and 4.76% for July through December 2020. The District made contributions to the plan in the approximate amount of \$105,000 for the year ended December 31, 2020.



**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
**(CONTINUED)**

**NOTE 3 – 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 2020. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2020, the District's proportion for the nonhazardous was .084%.

*OPEB Liability:* For the period ending December 31, 2020, the Board reported a liability of \$2,052,540 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of 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, 2020, the District recognized OPEB expense of \$313,555 (this is from tables for pension plan year ending 06/30/20, 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		
Difference between expected actual experience	.. \$ 342,936	\$343,204
Changes in assumptions	357,021	2,171
Net difference between projected and actual earnings on investments	110,104	41,882
Changes in proportion and differences between District contributions and proportionate share of contributions	...126,350.....	1,420
District contributions subsequent to The measurement date	<u>\$ 9,200</u>	
<b>TOTAL</b>	<u><u>\$ 945,611</u></u>	<u><u>\$388,677</u></u>

**MOUNTAIN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**  
**(CONTINUED)**

**NOTE 3 – 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:	
2021	\$ 148,084
2022	168,723
2023	129,511
2024	105,040
2025	<u>(3,174)</u>
TOTAL	<u>\$ 548,184</u>

*Net OPEB Liability:* The District 's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

**Actuarial Assumptions and Methods**

Total pension liability for CERS was determined by actuarial valuation as of June 30, 2020 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, 2020**  
**(CONTINUED)**

**NOTE 3 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)(CONTINUED)**

Valuation Date	June 30, 2020
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 (Pre-65)	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to 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, 2020 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, 2020**  
**(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	
	<u>Target</u>	<u>Nominal Rate</u>
	<u>Allocation</u>	<u>of Return</u>
US Equity	18.75%	4.30%
Non-U.S 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	15.00%	4.10%
TOTAL	<u>100.00 %</u>	

**New rates for 2020 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, 2020**  
**(CONTINUED)**

**NOTE 3 – 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, 2020. 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, 2020).

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 5.39%, 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, (4.34%), or 1 percentage point higher, (6.34%), than the current rate:

	1% Decrease (4.34%)	Discount Rate (5.34%)	1% Increase (6.34%)
Mountain Waters's Share Of the net pension liability	<u>\$2,636,911</u>	<u>\$2,052,540</u>	<u>\$1,572,576</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	\$1,589,179	\$2,052,540	\$2,614,839

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, 2020 AND 2019**

**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, 2020 and December 31, 2019 were \$368,136 and \$363,500 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 24, 2021 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, 2020 AND 2019**

**9. DEPOSITS WITH FINANCIAL INSTITUTIONS**

At December 31, 2020, the carrying amount of the District's deposits with financial institutions was \$3,878,215. 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>3,925,599</u>
<b>Total Bank Balance</b>	<b><u>\$ 4,675,599</u></b>

Pledged collateral was obtained for amounts up to \$3,223,297 for money on deposit at Community Trust Bank in the name of the District. Pledged collateral was obtained for accounts up to \$702,302 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:

Description	Balance January 1, 2020	Additions	Dispositions	Balance December 31, 2020
Supply & Pumping	\$4,011,019	\$ 373,646	\$ -0-	\$4,384,665
Water Treatment Equipment	17,842,502	591,404	-0-	18,433,906
Transmission & Distribution	95,612,808	1,375,811	-0-	96,988,619
General Plant	4,176,767	-0-	-0-	4,176,767
Land and Land Rights	567,655	10,985	-0-	578,640
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	152,303,862	2,351,846	-0-	154,655,708
Accumulated Depreciation	<u>(66,070,467)</u>	<u>(4,078,111)</u>	<u>-0-</u>	<u>(70,148,578)</u>
Net Utility Plant	<u>\$86,233,395</u>	<u>\$ (1,726,265)</u>	<u>\$ -0-</u>	<u>\$84,507,130</u>

Description	January 1, 2019	Additions	Dispositions	December 31, 2019
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>

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**10. CAPITAL ASSETS (Continued)**

Depreciation expense was \$4,078,111 and \$3,976,067 for the years ended December 31, 2020 and 2019, respectively.

**11. CONSTRUCTION FUNDS**

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

	<u>2020</u>	<u>2019</u>
Big Creek Sewer Coal Settlement	\$5,401	\$ 5,401
John Creek Project	3,333	3,333
District Wide Tap Fees	53,300	85,113
Misc. Line Extensions	4,896	5,844
MWD Special Projects	161	375
Cowpen Waste Water Project	-0-	1,860
Elk Creek Project	5,372	5,372
Water Treatment Raw Water Intake	25	25
LMI Service Contract	-0-	656
Various Short Line Extensions	91	191
Telemetry Project	100	100
Metered Replacement project	276,386	-0-
Watson Hill Water Line	85	85
Long Fork Virgie Sewer Project	-0-	100
Belfry Pond Sewer Project	259	18,352
Smith Fork Waste Water Phase II	-0-	100
Pike County Fiscal Court Projects	82,980	114,127
Repair and Maintenance Reimbursement	397	11,474
MWD Rehabilitation Project	-0-	5,160
Various Misc. projects	4,743	-0-
<b><u>Total Construction Funds</u></b>	<b><u>\$ 437,529</u></b>	<b><u>\$ 257,398</u></b>

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

As of December 31, 2020 and 2019 restricted cash were as follows:

	<u>2020</u>	<u>2019</u>
Depreciation Reserve	\$ 861,058	\$ 857,680
Sinking Fund	486,203	558,538
Customer Deposit Escrow Account	455,206	402,893
Operation & Maintenance reserve	337,687	258,192
Waste Water O & M Reserve	869,874	869,003
Recycling Account	38,415	26,236
Construction Account	437,529	257,398
<b><u>Total Restricted Cash</u></b>	<b><u>\$3,485,972</u></b>	<b><u>\$3,229,940</u></b>



**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**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 <u>Balance</u></b>	<b>Required Balance at <u>12/31/20</u></b>	<b>Actual Balance At <u>12/31/20</u></b>
Depreciation Reserve Funds	\$852,060	\$ 852,060	\$ 861,058
Repairs and Maintenance Funds	\$ 1,048,168	<u>882,868</u>	<u>1,207,561</u>
<b>Total</b>		<b><u>\$1,734,928</u></b>	<b><u>\$2,068,619</u></b>

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 2020.

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**14. CONSTRUCTION IN PROGRESS**

Mountain Water District has overseen several construction projects. As of December 31, 2020 and 2019, the following projects were in progress.

	<u>2020</u>	<u>2019</u>
<b><u>Water Projects</u></b>		
FEMA Mitigation Project	\$ 852,599	\$ 6,064
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	78,885	16,376
<b><u>Sewer Projects</u></b>		
Phelps/Buskirk	189,838	134,438
Residential Grinder Replacement	-0-	-0-
Henry Clay	138,708	138,708
Belfry Pond Sewer	7,271,324	2,479,266
Douglas	-0-	-0-
<b><u>Total Construction in Progress</u></b>	<b><u>\$ 8,531,354</u></b>	<b><u>\$ 2,775,212</u></b>

**15. BONDS PAYABLE**

	<u>2020</u>	<u>2019</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	\$594,500	\$608,000
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.	333,500	341,500

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENT**  
**DECEMBER 31, 2020 AND 2019**

**15 BONDS PAYABLE (Continued)**

	<u>2020</u>	<u>2019</u>
<b>Fedscreek Project</b>		
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.	\$ 574,000	\$592,000
<b>Johns Creek</b>		
The 4.125% revenue bonds issued 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.	1,355,000	1384,000
<b>Radio Read Project</b>		
The 1.5% interest payments in January and July revenue bonds issued 2020 in the original amount of \$3,150,000 are payable to USDA-Rural Development to the year 2061. The bonds are secured by a secondary statutory mortgage lien on the Radio read Equipment and a pledge of all water revenues from the system.	3,150,000	-0-
<b>Belfry</b>		
The 1.73% revenue bonds issued 2020 in the original amount of \$3,653,000 are payable to USDA-Rural Development to the year 2060. The bonds are secured by a secondary statutory mortgage lien on the Belfry project and a pledge of all water revenues from the system.	3,653,000	-0-
<b>Russell Fork Water Plant Project</b>		
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.	<u>\$ 564,000</u>	<u>\$ 575,000</u>
Total bonds	\$10,224,000	\$ 3,500,500
Less current portion	<u>(122,000)</u>	<u>(78,500)</u>
Long Term Bonds Payable	<u>\$10,102,000</u>	<u>\$3,422,000</u>

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**15 BONDS PAYABLE (Continued)**

Maturities of these long-term bonds are as follows:

December 31	<u>Principal</u>	<u>Interest</u>
2021	122,000	249,361
2022	127,000	245,371
2023	199,500	241,554
2024	202,100	236,999
2025	206,500	230,408
2026-2030	1,182,500	940,622
2031-2035	1,365,000	921,530
2036-2040	1,606,000	691,561
2041-2045	1,699,000	464,190
2046-2050	1,147,400	246,400
2051-2055	1,122,500	153,620
2051-2055	<u>1,244,500</u>	<u>57,225-</u>
	<u>\$10,224,000</u>	<u>\$4,678,841</u>

**16. NOTES PAYABLE AND CAPITAL LEASES**

	<u>2020</u>	<u>2019</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.	\$ 3,525,000	\$ 3,920,000
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.	738,926	971,388
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.	48,864	64,206

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENT**  
**DECEMBER 31, 2020 AND 2019**

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

	<u>2020</u>	<u>2019</u>
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.	241,608	307,902
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.	39,944	49,683
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.	201,880	220,027
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.	\$ 3,101,574	\$3,261,934
<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.	-0-	1,956
<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.	-0-	3,571
<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	-0-	4,417

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

	<u>2020</u>	<u>2019</u>
<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	-0-	4,416
<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	60,007	97,249
<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.	29,088	39,938
<u>Community Trust Bank</u>		
A lease purchase agreement, original balance \$24,844; at 3.99% interest; secured by a vehicle; payments are \$561 for 48 months and a final maturing October 2024.	21,932	-0-
<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.	\$ 17,018	\$ 39,136
<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.	-0-	1,929,738
<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.	-0-	37,237

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

<b><u>16. NOTES PAYABLE AND CAPITAL LEASES (Continued)</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
<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.	14,092	19,905
<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.	6,285	15,424
<u>Community Trust Bank</u> A lease purchase agreement, original balance \$53,433; at 3.25% interest; secured by a vehicle; payments are \$1,189 for 48 months maturing in October 2024.	50,293	-0-
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.	257,296	271,436
<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.	-0-	2,025
<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.	8,643	14,835
<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.	7,094	12,836

**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

<b><u>16. NOTES PAYABLE AND CAPITAL LEASES (Continued)</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
<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.	-0-	9,928
<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.	27,919	39,439
<u>Community Trust Bank</u> A lease purchase agreement, original balance \$33,234; at 3.25% interest; secured by a vehicle; payments are \$739 for 48 months maturing in Oct 2024.	32,562	-0-
<u>Community Trust Bank</u> A lease purchase agreement, original balance \$33,285; at 3.25% interest; secured by a vehicle; payments are \$650 for 48 months maturing in Oct 2024.	32,562	-0-
<u>Community Trust Bank</u> A lease purchase agreement, original balance \$33,234; at 3.25% interest; secured by a vehicle; payments are \$739 for 48 months maturing in Oct 2024.	32,562	-0-]
<u>Community Trust Bank</u> 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.	9,029	15,452
Total Notes Payable and Capital Leases	8,504,178	11,344,078
Less current portion	(1,241,902)	(1,061,714)
Total Long-term Portion	<u>\$ 7,262,276</u>	<u>\$10,282,364</u>



**MOUNTAIN WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

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

	<u>Principal</u>	<u>Interest</u>
2021	1,055,178	60,154
2022	817,459	44,215
2023	820,228	31,522
2024	519,262	24,414
2025	442,313	22,938
2026-2030	2,406,905	71,290
2031-2035	1,873,244	38,819
2036-2040	569,239	7,194
	<u>\$ 8,504,178</u>	<u>\$ 297,546</u>

**17. ADVANCES FOR CONSTRUCTION**

	<u>2020</u>	<u>2019</u>
<b><u>Water Projects</u></b>		
In House Projects	\$ 59,694	\$ 111,824
Booster Pump	572,327	-0-
<b><u>Sewer Projects</u></b>		
Phelps Waste Water		
Kentucky Infrastructure Authority	179,910	124,510
Douglas WTP		
LGEDF Funds	-0-	-0-
Henry Clay Sewer Projects:		
COE Section 531	45,391	45,391
LGEDF Funds	92,640	92,640
Belfry Pond		
Rural Development	440,282	1,538,016
Coal Severance	3,158,846	941,250
<b><u>Total Advances for Construction</u></b>	<u>\$4,549,090</u>	<u>\$ 2,853,632</u>

**MOUNTAIN WATER DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

<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	\$4,011,625
U.S. Department of Homeland Security Hazard Mitigation GRANT(HMGP)	97.039	490,353
Total		<b><u>\$ 4,501,978</u></b>

**Reconciling items to the Financial statements**

(See Construction in Progress and fixed assets)

<b>Construction in Progress Pg. 32</b>	
Belfry Pond, Sewer and Booster Pump	<b><u>\$ 4,501,978</u></b>
Total Federal Revenue per Financial Statements:	<b><u>\$ 4,501,978</u></b>

See Accompanying Note

**MOUNTAIN WATER DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**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, 2020, 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 24, 2021.

**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 24, 2021

**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 24, 2021

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, 2020. 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, 2020.

See accompanying notes

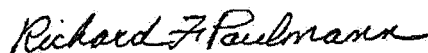
**Report on Internal Control Over Compliance**

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 24, 2021

See accompanying notes

MOUNTAIN WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

**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

MOUNTAIN WATER DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2020

**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	6/30/20	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	Plan valuation date
	12/30/20	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	Calendar year
		NH	NH	NH	NH	NH	
Prop NPL	.085027	0.08444%	0.08170%	0.07050%	0.00492%	0.00499%	these are for the 6/30 valuation date
Prop share of NPL	651501	1,938,000	4,976,000	4,127,000	242,000	163,000	these are for the 6/30 valuation date
Payroll	2,116,759	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	295 %	259.76%	239.12%	209.32%	28.24%	108.67%	these are for the 6/30 valuation date
Plan fiduciary net position as % of TP	50.6	50.45%	53.54%	53.32%	55.50%	59.97%	these are for the 6/30 valuation date
	420346						
Contractually required contribution		502,000	524,000	485,000	194,000	26,000	these are for calendar year end
Actual contribution	420346	(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	2116759	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
	20 %						
Contribution rates - Pension		16.22%	14.48%	13.95%	12.42%	12.75%	
	19.3						

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

OPEB	6/30/20	6/30/2019	6/30/2018	6/30/2017		Plan valuation date
	12/31/20	12/31/2019	12/31/2018	12/31/2017		Calendar year
		NH	NH	NH		
Prop Net OPEB Liability	.085002	0.084440%	0.081700%	0.070500%		these are for the PY valuation date
Prop share of Net OPEB Liability	2,052,540	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	2116759	62.12%	69.68%	72.08%		these are for the PY valuation date
Plan fiduciary net position as % of IO	103671	60.44%	57.62%	52.39%		these are for the PY valuation date
Contractually required contribution	103671	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)	2116759					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	5%	4.59%	4.57%	4.17%		these are for calendar year end
Contribution rates - OPEB	4.76%	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 NH	OPEB NH	NH TOTAL	Pension HAZ	OPEB HAZ	HAZ TOTAL
6/30/2014	13.74%	5.15%	18.89%	21.77%		35.70%
6/30/2015	12.75%	4.92%	17.67%	20.73%	13.93%	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