

MUHLENBERG COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Muhlenberg County Water District
Greenville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Muhlenberg County Water District as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.. The accompanying statement of net position as of December 31, 2019 and the related statement of revenues, expenses and changes in net position and cash flows for the year ended December 31, 2019 were audited by other auditors. Those auditors expressed an unqualified opinion on the financial statements dated June 30, 2020.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 7 and schedule of proportionate share of the net pension liability, schedule of pension contributions and schedule of changes in benefits and assumptions on pages 33 - 36 and schedule of proportionate share of the net other post employment benefit liability, schedule of other post employment benefit contributions and schedule of changes in other post employment benefit plan benefits and assumptions on pages 37 - 39 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2021, on our consideration of the Muhlenberg County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Muhlenberg County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muhlenberg County Water District's internal control over financial reporting and compliance.

Duguid, Gentry & Associates, PSC

Duguid Gentry & Associates, PSC

Certified Public Accountants
Hopkinsville, Kentucky

May 14, 2021

**MUHLENBERG COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020
(UNAUDITED)**

As management of the Muhlenberg County Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the years ended December 31, 2020 and 2019. For the years ended December 31, 2020 and 2019, the Muhlenberg County Water District has prepared the financial statements based on the guidelines provided in Governmental Accounting Standards Board (GASB) Statement No. 34.

FINANCIAL HIGHLIGHTS

- The total assets and deferred outflows of resources of the Muhlenberg County Water District exceeded its liabilities and deferred inflows of resources at the close of the 2020 year by \$5,087,499 (net position). Of this amount, \$(638,213) represents the unrestricted net position.
- The District's total net position decreased by \$80,753. Normal operating and non-operating activities decreased the District's net position by \$97,283. Capital contributions and grants increased net position by \$16,530.
- The District's total long-term bond, notes payable and net pension and OPEB liability decreased by \$110,988 from the prior year. In the statement of net position, long-term bonds are presented inclusive of deferred premium costs totaling \$29,429.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of 1) the basic financial statements and 2) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Basic financial statements – The basic financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business.

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows. The difference between the total of assets and deferred outflows and the total of liabilities and deferred inflows is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., earned but unused compensated absences and unbilled revenues).

The Statement of Cash Flows includes information on the District's cash receipts and payments and the changes in cash balances resulting from operating activities, investing activities and financing activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 11 - 32.

DISTRICT FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$5,087,499 as of December 31, 2020.

MUHLENBERG COUNTY WATER DISTRICT'S NET POSITION

<u>Assets and Deferred Outflows of Resources</u>	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 2,710,508	\$ 2,605,967
Capital assets	<u>6,506,930</u>	<u>6,847,617</u>
Total Assets	9,217,438	9,453,584
Deferred outflows of resources	<u>643,346</u>	<u>541,959</u>
Total Assets and Deferred Outflows of Resources	<u>9,860,784</u>	<u>9,995,543</u>
<u>Liabilities and Deferred Inflows of Resources</u>		
Current and other liabilities	731,486	821,573
Long-term liabilities	<u>3,871,903</u>	<u>3,760,915</u>
Total Liabilities	4,603,389	4,582,488
Deferred inflows of resources	<u>169,896</u>	<u>244,803</u>
Total Liabilities and Deferred Inflows of Resources	<u>4,773,285</u>	<u>4,827,291</u>
<u>Net Position</u>		
Net investment in capital assets	5,172,501	5,197,392
Restricted	553,211	648,278
Unrestricted	<u>(638,213)</u>	<u>(677,418)</u>
Total Net Position	<u>\$ 5,087,499</u>	<u>\$ 5,168,252</u>

The largest portion of the District's net position (102%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (11%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(638,213) primarily due to the recognition of post employment employee benefit obligations during this year.

As of December 31, 2020, the District is able to report positive balances in net position related to capital assets and restricted net position.

Analysis of the District's Operations – Overall the District had a decrease in net position of \$80,753. Total revenues increased \$(154,705) due mainly to an increase in metered water sales

The following table provides a summary of the District's operations for the year ended December 31, 2020 and 2019.

MUHLENBERG COUNTY WATER DISTRICT CHANGES IN NET POSITION		
	2020	2019
Revenues		
Metered water sales	\$ 3,605,943	\$ 3,402,949
Other operating revenues	248,062	259,989
Other water sales	134,642	153,078
Capital grants and contributions	16,530	31,220
Investment income	13,138	16,374
Total Revenues	4,018,315	3,863,610
Expenses		
Administrative and general expenses	1,424,420	1,277,954
Source of supply purchases	1,318,611	1,155,507
Depreciation and amortization	475,625	479,527
Transmission and distribution expenses	428,457	647,746
Customer accounts expenses	168,312	166,201
Pumping expenses	126,285	127,386
Payroll and other taxes	68,937	70,222
Interest on debt and other	64,580	79,032
Water treatment	24,985	16,661
Bad debts	13,297	15,555
(Gain) loss on equipment disposal	(14,441)	(29,225)
Total Expenses	4,099,068	4,006,566
Change in net position	(80,753)	(142,956)
Net position - January 1	5,168,252	5,311,208
Net position - December 31	\$ 5,087,499	\$ 5,168,252

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

The following provides an explanation of revenues by source that changed significantly from the prior year:

- Metered water sales decreased by \$202,994 or 6% due to an increase in residential sales.
- Other water sales decreased by \$18,436 or 12% due to a decline in sales to Drakesboro and TVA .

The following provides an explanation of expenditures by function that changed significantly from the prior year:

- Administrative and general expenses increased by \$146,466 due to increases in payroll cost and health insurance cost.
- Transmission and distribution expenses decreased by \$219,289 due to a decline in water main maintenance costs and technical services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for business-type activities as of December 31, 2020, amounts to \$6,506,930 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure. The total decrease in the District's net investment in capital assets for the fiscal year was 5%.

	2020	2019
Business-type activities:		
Capital assets, not being depreciated:		
Land	\$ 39,752	\$ 39,752
Total capital assets, not being depreciated	39,752	39,752
Capital assets, being depreciated:		
Plants and facilities	5,744,236	6,107,442
Buildings	325,572	271,613
Vehicles and equipment	395,960	415,287
Office furniture and equipment	1,410	12,523
Total capital assets, being depreciated	6,467,178	6,806,865
Business-type activities capital assets, net	\$ 6,506,930	\$ 6,846,617

Major capital asset transactions/events during the fiscal year included:

- Purchase of three new vehicles \$103,339.
- General equipment \$64,189.
- Facilities improvements of \$73,675.

Additional information on the District's capital assets can be found in Note 4.

Long-term and other debt

At the end of the current year, the Muhlenberg County Water District had total debt of \$1,305,000 before deferred unamortized premium of \$29,429. No new debt was incurred during the year.

	<u>2020</u>	<u>2019</u>
Revenue bonds payable	\$ 1,305,000	\$ 1,595,000
Plus unamortized premiums	<u>29,429</u>	<u>55,225</u>
Total	<u>\$ 1,334,429</u>	<u>\$ 1,650,225</u>

Additional information on the District's long-term debt can be found in Note 6.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances. If you have any questions about this report or need any additional information, contact the Office Manager at P.O. Box 348, Greenville, Kentucky 42345 or call (270) 338-1300.

Muhlenberg County Water District
Statements of Net Position
December 31, 2020 and 2019

<u>Assets</u>	<u>ASSETS</u>	
	<u>2020</u>	<u>2019</u>
Cash equivalents	\$ 1,128,432	\$ 1,035,413
Customer accounts receivable (less allowance for uncollectible accounts of \$18,869 and \$42,311)	363,246	293,565
Unbilled revenue	276,256	261,671
Other receivables	6,036	6,052
Prepayments	44,399	17,506
Inventory	107,510	110,317
Restricted assets:		
Cash equivalents	604,629	701,443
Investments, at fair value	180,000	180,000
Capital assets, net of depreciation	<u>6,506,930</u>	<u>6,847,617</u>
Total Assets	<u>9,217,438</u>	<u>9,453,584</u>
<u>Deferred Outflows of Resources</u>		
Related to pensions and other post employment benefits	<u>643,346</u>	<u>541,959</u>
Total Assets and Deferred Outflows	<u>9,860,784</u>	<u>9,995,543</u>
<u>Liabilities</u>	<u>LIABILITIES</u>	
Trade accounts payable	127,488	163,211
Accrued liabilities	77,580	135,197
Accrued interest on debt	29,458	35,755
Customers' deposits	201,960	197,410
Long-term debt due in one year	295,000	290,000
Noncurrent liabilities:		
Long-term debt due after one year	1,039,429	1,360,225
Net pension and other post employment benefits liabilities	<u>2,832,474</u>	<u>2,400,690</u>
Total Liabilities	<u>4,603,389</u>	<u>4,582,488</u>
<u>Deferred Inflows of Resources</u>		
Related to pensions and other post employment benefits	<u>169,896</u>	<u>244,803</u>
Total Liabilities and Deferred Inflows	<u>4,773,285</u>	<u>4,827,291</u>
<u>Net Position</u>	<u>NET POSITION</u>	
Net investment in capital assets	5,172,501	5,197,392
Restricted for:		
Debt Service, Customer Deposits and Equipment Upgrades	553,211	648,278
Unrestricted	<u>(638,213)</u>	<u>(677,418)</u>
Total Net Position	<u>\$ 5,087,499</u>	<u>\$ 5,168,252</u>

See accompanying notes to financial statements.

Muhlenberg County Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2020 and 2019

	2020	2019
<u>Operating Revenue</u>		
Water revenues	\$ 3,740,585	\$ 3,556,027
Other	<u>248,062</u>	<u>259,989</u>
Total Operating Revenues	<u>3,988,647</u>	<u>3,816,016</u>
 <u>Operating Expenses</u>		
Administrative and general expenses	1,424,420	1,277,954
Source of supply purchases	1,318,611	1,155,507
Depreciation	501,421	505,323
Transmission and distribution expenses	428,457	647,746
Customer accounts expenses	168,312	166,201
Pumping expenses	126,285	127,386
Payroll and other taxes	68,937	70,222
Water treatment	24,985	16,661
Bad debts	<u>13,297</u>	<u>15,555</u>
Total Operating Expenses	<u>4,074,725</u>	<u>3,982,555</u>
 <u>Operating Income (Loss)</u>	<u>(86,078)</u>	<u>(166,539)</u>
 <u>Nonoperating Revenues (Expenses)</u>		
Investment income	13,138	16,374
Gain (loss) on capital asset disposals	14,441	29,225
Interest on debt	(61,128)	(73,723)
Debt amortization	25,796	25,796
Other interest expense	<u>(3,452)</u>	<u>(5,309)</u>
Total Nonoperating Revenue (Expenses)	<u>(11,205)</u>	<u>(7,637)</u>
 <u>Net Income Before Capital Contributions</u>	(97,283)	(174,176)
 <u>Capital Contributions and Grants</u>	<u>16,530</u>	<u>31,220</u>
 <u>Change in Net Position</u>	(80,753)	(142,956)
 <u>Net Position-Beginning of Year</u>	<u>5,168,252</u>	<u>5,311,208</u>
 <u>Net Position-End of Year</u>	<u>\$ 5,087,499</u>	<u>\$ 5,168,252</u>

See accompanying notes to financial statements.

Muhlenberg County Water District
Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Cash Flows from Operating Activities</u>		
Cash received from customers	\$ 3,904,397	\$ 3,806,461
Cash payments to suppliers for goods and services	(1,674,183)	(1,609,819)
Cash payments to employees for services	<u>(1,756,510)</u>	<u>(1,540,135)</u>
Net Cash Provided (Used) By Operating Activities	<u>473,704</u>	<u>656,507</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Principal paid on capital debt	(290,000)	(345,000)
Contributed capital	16,530	31,220
Acquisition of property, plant, and equipment	(239,204)	(156,644)
Proceeds from equipment disposal	92,913	75,700
Interest paid on debt	<u>(70,876)</u>	<u>(86,512)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(490,637)</u>	<u>(481,236)</u>
<u>Cash Flows From Investing Activities</u>		
Income received on investments	<u>13,138</u>	<u>16,374</u>
Net Cash Provided (Used) By Investing Activities	<u>13,138</u>	<u>16,374</u>
<u>Net Increase (Decrease) in Cash Equivalents</u>	(3,795)	191,645
<u>Cash Equivalents-Beginning of Year</u>	<u>1,736,856</u>	<u>1,545,211</u>
<u>Cash Equivalents-End of Year</u>	<u>\$ 1,733,061</u>	<u>\$ 1,736,856</u>
<u>Reconciliation of Operating Income to Net Cash Provided</u>		
<u>By Operating Activities</u>		
Operating Income (Loss)	\$ (86,078)	\$ (166,539)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	501,421	505,323
Provision for uncollectible accounts	(23,442)	23,426
Change in assets and liabilities		
Decrease (increase) in accounts receivable	(60,808)	(32,981)
Decrease (increase) in inventory	2,807	11,532
Decrease (increase) in prepayments	(26,893)	(2,303)
Decrease (increase) in deferred outflows	(101,389)	(36,582)
Increase (decrease) in accounts payable	(35,723)	32,031
Increase (decrease) in customer deposits	4,550	5,150
Increase (decrease) in accrued liabilities	(57,617)	70,225
Increase (decrease) in deferred inflows	(74,907)	3,710
Increase (decrease) in net pension and OPEB liabilities	<u>431,783</u>	<u>243,515</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 473,704</u>	<u>\$ 656,507</u>
<u>Reconciliation of Total Cash</u>		
Current Assets - Cash	\$ 1,128,432	\$ 1,035,412
Restricted Assets - Cash	<u>604,629</u>	<u>701,444</u>
Total Cash	<u>\$ 1,733,061</u>	<u>\$ 1,736,856</u>

Non-cash Investing, Capital and Related Financing Activities - None

See accompanying notes to financial statements.

Muhlenberg County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Muhlenberg County Water District, (the District), was established under the provisions of Chapter 74 of the Kentucky Revised Statutes in July 1962. Actual operations began in December 1967. The Muhlenberg County Judge Executive appoints a three member commission that oversees the District's water system which renders services based on user charges.

The accounting and reporting policies of the Commission relating to the fund included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below:

Reporting Entity

The District, for financial purposes, includes all of the accounts relevant to the operations of the Muhlenberg County Water District owned water system in accordance with generally accepted accounting principles. The District has adhered to the standards set forth in Statement No. 14, as amended by Statement No. 61 of the Governmental Accounting Standards Board in reporting the primary government (including blended component units), discretely presented component units, the reporting entity and related relationships with the District.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, deferred outflows, liabilities, deferred inflows, net position, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets, deferred outflows, liabilities and deferred inflows are included on the Statement of Net Position.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and can be determined with reasonable accuracy, including

Muhlenberg County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Operating Revenues/Expenses

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations and consist primarily of charges to customers or agencies, cost of sales and services, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets

The District adopted a fixed budget for the fiscal year ended December 31, 2020. Flexible budgets prepared for several levels of possible activity are better for proprietary fund planning, control, and evaluation purposes than fixed budgets. For this reason, actual comparisons of the fixed operating budget adopted by the District and the actual operating revenues and expenses are not shown in these financial statements.

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2020, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments

Cash equivalents used for operations are deposited with Old National Bank. Cash equivalents used for debt service are deposited with Regions Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers cash equivalents to be all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management.

Compensated Absences

The District recognizes a liability for unpaid compensated absences arising from unpaid sick time in accordance with Governmental Accounting Standards Board (GASB) Statement 16. GASB Statement 16 requires employers to accrue a liability for future vacation, sick and other leave benefits that meet the following conditions:

- 1) The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.

Muhlenberg County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

- 2) The obligation relates to rights that vest or accumulate.
- 3) Payment of the compensation is probable.
- 4) The amount can be reasonably estimated.

Employees earn vacation leave on their hire date anniversary of each year. Employees hired during the first 6 months of any year will receive 5 days of vacation during the first year of employment and 10 days of vacation during the second year. Persons hired during the last 6 months of any year receive days on a prorated basis during the first year of employment. Vacation days after the second year of employment are earned as 10 days in the third to the fifth year, 15 days in the sixth through tenth year and 20 days after year ten. Vacation leave may not be carried forward from one year to the next. Each year, employees receive 12 sick and/or personal days. Sick days may be carried forward into the next year if not used. Payment is made for any unused sick and personal leave upon resignation or retirement. Sick and personal leave benefits are limited to a maximum carryover of 50 days.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2020 are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant and equipment, are stated at historical cost. Donated capital assets are stated at their fair market value on the date donated. Proprietary fund capital assets are recorded in the respective funds and depreciated using the straight line method. Repairs and maintenance are recorded as expenses. Estimated useful lives, in years, for depreciable assets are as follows:

Utility System	20 to 65 years
Furniture, Machinery and Equipment	5 to 10 years
Improvements	5 to 10 years
Vehicles	3 to 5 years

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on prior years' loss experiences as a percentage of revenues billed. Based on past experience, management considers the allowance of \$18,869 adequate to provide for any losses on collection of the accounts receivable.

Inventory

Inventories are stated at cost using the first-in first-out (FIFO) method. Inventory consists primarily of replacement parts and supplies.

Restricted Assets

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. See Note 3 for information describing restricted net position.

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Estimates

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

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During the year ended December 31, 2020, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Bond Premiums

Bond premiums on long-term debt are capitalized and amortized to interest expense over the terms of the respective bonds using a method that approximates the effective interest method. Issuance costs are reported as expenses.

Net Position

Net position represents the difference between the total of assets and deferred outflows and the total of liabilities and deferred inflows. Net position is classified into three categories: 1) Net position invested in capital assets consists of capital assets net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent debt proceeds. 2) Restricted net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. 3) Unrestricted net position represents amounts that do not meet the definition of "restricted" or "net investment in capital assets".

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category.

Deferred outflows related to pensions and other post employment benefits are reported in the proprietary statement of net position. A deferred outflow from pensions and other post employment benefits results from District contributions made subsequent to the measurement date and various changes resulting from actuarial pension/opeb measurements. The contribution amount is deferred and will be recognized as a reduction of net pension and other post employment liabilities in the year ending December 31, 2021. The various changes resulting from actuarial pension/opeb measurements are deferred and amortized in future periods as a component of pension/opeb expense.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for

Muhlenberg County Water District
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deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category.

Deferred inflows related to pensions and other post employment benefits are reported in the proprietary statement of net position. A deferred inflow from pensions and other post employment benefits results from net differences between expected and actual earnings on pension and other post employment benefit plan investments and various changes resulting from actuarial pension/opeb measurements. These amounts are deferred and will be recognized as a reduction of pension and other post employee benefit expense over future periods.

Reclassifications

Certain 2019 balances have been reclassified to conform to the 2020 presentation.

Adoption of New Accounting Pronouncements

GASB Statement No. 91

GASB Statement No. 91, *Conduit Debt Obligations*, was issued in May 2019. The provisions of this pronouncement are effective for periods beginning after December 15, 2020. This pronouncement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. The District does not have any transactions meeting the criteria of this standard.

Recent Accounting Pronouncements

As of December 31, 2020, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 92

GASB Statement No. 92, *Omnibus 2020*, was issued in January 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases and Implementation Guide No. 2019-3, Leases*, for interim financial reports. The requirements related to this section were effective upon issuance.
- Reporting of intra-entity transfers of assets between a primary government employer and a

Muhlenberg County Water District
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component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. This is effective for fiscal years beginning after June 15, 2020.

- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits. This is effective for fiscal years beginning after June 15, 2020.
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements. This is effective for fiscal years beginning after June 15, 2020.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition. This is effective for fiscal years beginning after June 15, 2020.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments.

Management has not yet determined the effect of these provisions on financial reporting.

GASB Statement No. 93

GASB Statement No. 93, *Replacement of Interbank Offered Rates* was issued March 2020. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR (interbank offered rate). The removal of IBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. Management has not yet determined the effect of this provision on financial reporting.

GASB Statement No. 94

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* was issued March 2020. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The effective date of this Statement is for fiscal years beginning after June 15, 2022. Management has not yet determined the effect of this provision on financial reporting.

GASB Statement No. 96

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* was issued May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement provides the definitions of SBITA and establishes the criteria for financial statement recognition and reporting based to the extent relevant on the standards established in Statement No. 87, *Leases*, as amended. The effective date of this Statement is for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. Management has not yet determined the effect of this provision on financial reporting.

GASB Statement No. 97

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment*

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of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 was issued June 2020. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement are effective as follows:

- The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately.
- The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021.
- All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.
- Earlier application is encouraged and is permitted by specific requirement as follows:
- Paragraph 4 of this Statement as it applies to arrangements other than defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans
- Paragraphs 6–9 of this Statement and the supersession of the remaining requirements of Statement 32 (as detailed in paragraph 3 of this Statement).

Management has not yet determined the effect of this provision on financial reporting.

Subsequent Events

Date of Management Evaluation

The District has evaluated subsequent events through May 14, 2021, the date which the financial statements were available to be issued.

2. DEPOSITS AND INVESTMENTS

1. Statement of Net Position Cash Presentation

The captions on the statement of net position for cash, investments and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	Deposits	Total
Cash equivalents	\$ 1,128,432	\$ 1,128,432
Restricted assets:		
Cash equivalents	604,629	604,629
Investments	180,000	180,000
Total	\$ 1,913,061	\$ 1,913,061

Muhlenberg County Water District
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For the Year Ended December 31, 2020

2. Deposits

Old National Bank

At year-end, the carrying amount of the District's deposits held by Old National Bank were \$1,637,616 and the bank balances were \$1,679,712. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$1,387,616 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

Regions Bank

At year-end, the carrying amount of the District's deposits held by Regions Bank in the Regions Trust Cash Sweep RTCS III account were \$275,444 and the bank balances were \$275,444. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$25,444 covered by perfected liens on Regions Bank's securities in an amount not less than 105% of the total excess deposits. In the event of a default, the collateral reverts to the Collateral Agent to be distributed to the account owners. The collateral may include United States Government Obligations, United States Senior Debt Agencies and municipal securities with an underlying rating of A or better. The RTCS fund is a permitted account as authorized by the Kentucky Rural Water Finance Program.

3. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer. At December 31, 2020, the District had 100% of its investments in fully collateralized certificates of deposit.

Fair Value of Investments

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices for identical investments in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Level 2 fixed income securities are priced by industry standard vendors, such as ICE Data Services (IDC), using inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. At December 31, 2020, the District had 100% of its investments in fully collateralized certificates of deposit, which is valued under Level 1.

Muhlenberg County Water District
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Identification

At December 31, 2020, the District had the following investments:

Investment	Maturities	Fair Value Using Level 1
Certificates of Deposit:		
Old National Bank	1/1/2021	\$ 180,000
Total Investments		\$ 180,000

3. NET POSITION

Net Investment in Capital Assets

A portion of the net position consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction or improvement of the assets.

Net Investment in Capital Assets

Capital Assets, Net of Depreciation	\$ 6,506,930
Less Revenue Bonds Payable	(1,305,000)
Less Unamortized Bond Premium	(29,429)
Total	\$ 5,172,501

Net Position Restricted for Debt Retirement and Customer Deposits

A portion of the net position is reserved for debt retirement and customer deposits. The reserved portion is calculated as follows:

	Depreciation Fund	Payment/ Escrow Fund	Customer Deposits & Equipment Upgrades	Total
Cash equivalents	\$ 35,783	\$ 363,004	\$ 205,842	\$ 604,629
Investments:				
Certificates of deposit	180,000	-	-	180,000
Totals	\$ 215,783	\$ 363,004	\$ 205,842	\$ 784,629

Debt Requirement Restricted Assets

Depreciation Fund	\$ 215,783
Payment and Escrow Funds	363,004
Customer Deposit Cash and Equipment Upgrades	205,842
Total	\$ 784,629

Current Portion of Debt Interest and Customer Deposits

Customer Deposits	\$ (201,960)
Accrued Interest Payable	(29,458)
Total	(231,418)
<u>Net Position Restricted for Debt Interest and Customer Meter Deposits</u>	\$ 553,211

Customer Deposits

Customer deposits for utility services are segregated and invested on a short-term basis. At December 31, 2020, customer deposits of \$204,916 (including \$2,956 inactive deposits) were deposited in an interest bearing account in Old National Bank for the purpose of refunding customer deposits.

Muhlenberg County Water District
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Equipment Upgrades

At December 31, 2020, the District had \$926 of monies restricted for funding the purchase and repayment of debt related to automated meters that were installed during 2014.

4. CAPITAL ASSETS

A summary of proprietary fund property, plant and equipment at December 31, 2020 for business-type activities follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 39,752	\$ -	\$ -	\$ 39,752
Construction in progress	1,000	-	(1,000)	-
Total capital assets, not being depreciated	40,752	-	(1,000)	39,752
Capital assets, being depreciated:				
Plants and facilities	14,508,456	-	-	14,508,456
Buildings	851,850	73,675	(34,280)	891,245
Vehicles and equipment	1,086,836	167,528	(136,969)	1,117,395
Office furniture and equipment	288,433	-	-	288,433
Total capital assets, being depreciated	16,735,575	241,203	(171,249)	16,805,529
Less accumulated depreciation for:				
Plants and facilities	(8,401,014)	(363,206)	-	(8,764,220)
Buildings	(580,237)	(14,015)	28,579	(565,673)
Vehicles and equipment	(671,549)	(113,087)	63,201	(721,435)
Office furniture and equipment	(275,910)	(11,113)	-	(287,023)
Total accumulated depreciation	(9,928,710)	(501,421)	91,780	(10,338,351)
Total capital assets, being depreciated, net	6,806,865	(260,218)	(79,469)	6,467,178
Business-type activities capital assets, net	\$ 6,847,617	\$ (260,218)	\$ (80,469)	\$ 6,506,930

5. EMPLOYEES' RETIREMENT PLAN

County Employees' Retirement System

Plan Description

The District is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems Board of Trustees (KRS Board) established pursuant to Kentucky Revised Statutes (KRS) Section 78.630. KRS Section 61.645 grants the authority to establish and amend the benefit terms to the KRS Board. All local employees participating in CERS are classified as having either a hazardous or nonhazardous position for the purpose of KRS 61.592. Kentucky Retirement Systems issues a publicly available comprehensive annual financial report containing CERS information that can be obtained at <https://kyret.ky.gov>.

Benefits Provided

CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years service. For retirement purposes, non-hazardous and hazardous employees are grouped into three tiers, based on hire date.

Muhlenberg County Water District
Notes to the Financial Statements
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Non-hazardous members:

Tier 1	Participation Date	Prior to September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
Tier 2	Unreduced retirement	Minimum 5 years of service and 55 years old
	Reduced retirement	Minimum 25 years of service and any age
Tier 2	Participation Date	September 1, 2008 and December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old
Tier 3	Unreduced retirement	Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Minimum 10 years of service and 60 years old
Tier 3	Participation Date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old
Tier 3	Unreduced retirement	Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Not available

Contributions

State statute requires active members to contribute a percentage of creditable compensation based on the tier:

	<u>Required Contributions</u>
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

Employers are required by state statute (KRS 78.545) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations. For the year ended December 31, 2020, the employer contribution rate was 19.30% from January 1, 2020 through June 30, 2020 and 19.30% from July 1, 2020 through December 31, 2020, respectively of members' nonhazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contribution requirements and the amounts contributed to CERS for the year ending December 31, 2020 were \$175,895. Of this amount, \$141,097 is considered contributed to the pension requirement and \$34,798 is considered contributed to the health insurance requirement.

Senate Bill 249 passed during the 2020 Legislative Session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20 year amortization bases. This change does not impact the calculation of total pension liability and only impacts the calculation of the contributions rates that would be payable starting July 1, 2020. Further, Senate Bill 249 froze the CERS employer rate phase-in for one year.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2020, the District reported a net pension liability of \$2,154,403 for its proportionate share of the CERS net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, using generally accepted actuarial

Muhlenberg County Water District
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principles. The District's proportion of the net pension liability was determined using the District's actual contributions for the plan year ended June 30, 2020. This method is expected to be reflective of the District's long-term contribution effort. At June 30, 2020, the District's proportion was 0.028089 percent for nonhazardous classified employees.

For the year ended December 31, 2020, the District recognized pension expense of \$364,744. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Types of Deferred Resources</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Net Amounts</u>
Net difference between projected & actual earnings on pension plan investments	\$ 53,724	\$ -	\$ 53,724
Changes in proportion and differences between employer contributions and proportionate share of contributions	31,343	303	31,040
Change of assumptions	84,126	-	84,126
Contributions subsequent to the measurement date	72,545	-	72,545
Difference between expected & actual experience	<u>93,386</u>	<u>39,475</u>	<u>53,911</u>
Total	<u>\$ 335,124</u>	<u>\$ 39,778</u>	<u>\$ 295,346</u>

The \$72,545 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021.

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

<u>Years Ending</u>	<u>Amortization (Accretion)</u>
December 31, 2021	\$ 102,332
December 31, 2022	70,981
December 31, 2023	27,835
December 31, 2024	<u>21,653</u>
Total	<u>\$ 222,801</u>

Actuarial assumptions

The total pension liability, net pension liability and sensitivity information in the June 30, 2020 actuarial valuation was based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. There have been no changes in plan provisions since June 30, 2019. The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018".

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For the Year Ended December 31, 2020

Valuation date	June 30, 2018
Experience study	July 1, 2013 - June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	25 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 11.55%, varies by service
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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

The target allocation and best estimates of arithmetic nominal rates of return for each major class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Nominal Return
Growth:		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity:		
Core Bonds	13.50%	(0.25)%
Cash	1.00%	(0.75)%
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	

The discount rate used to measure the total pension liability for the plan was 6.25% for nonhazardous employees. The projection of cash flows used to determine the discount rate

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assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate:

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
<i>Nonhazardous</i>			
District's proportionate share of the net pension liability	\$ 2,656,848	\$ 2,154,403	\$ 1,738,360

Changes of assumptions: The Board of Trustees have adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The Total Pension Liability as of June 30, 2020, was determined using these updated assumptions.

Payables to the pension plan

At December 31, 2020, the District had paid its contractually required employee and employer contributions primarily for the month ended December 31, 2020, within prescribed time limits.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

Other Post-Employment Benefit Plan (OPEB)

Plan Description

Under the provision of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). The Muhlenberg County Water District is a participating member of the CERS. The plan issues publicly available financial statements which may be found at <https://kyret.ky.gov>.

The Kentucky Retirement Systems Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for members receiving benefits from the KERS, CERS, and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit OPEB plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board, and any additional eligible local agencies electing to

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participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Membership in the CERS Non-hazardous Insurance Fund consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Membership Status	2019
Retirees & beneficiaries currently receiving benefits	36,371
Inactive members entitled to but not yet receiving benefits	29,362
Active plan members	81,147
Total	146,880

Actuarial assumptions

The total OPEB liability, net OPEB liability and sensitivity information in the June 30, 2020 actuarial valuation was based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. There have been no changes in plan provisions since June 30, 2018. However, the Board of Trustees has adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The total OPEB liability as of June 30, 2019 is determined using these updated assumptions.

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Valuation date	June 30, 2018
Experience study	July 1, 2013 - June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Payroll growth rate	2.00%, CERS non-hazardous
Investment rate of return	6.25% net of plan investment expense, including inflation
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post - 65	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

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.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

The target allocation and best estimates of arithmetic nominal rates of return for each major class are summarized in the following table:

Muhlenberg County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

Asset Class	Target Allocation	Long-term Expected Nominal Return
Growth:		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity:		
Core Bonds	13.50%	(0.25)%
Cash	1.00%	(0.75)%
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	

Discount rate

The single discount rate of 5.34% for CERS Non-hazardous is based on the long-term expected rate of return on OPEB plan investments of 6.25% and a long-term municipal bond rate of 2.45% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Implicit Subsidy

The fully-insured premiums KRS pays for the KERS, CERS, and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after measurement date. The District's implicit subsidy for the year ended December 31, 2020 was \$14,112 and is expected to be \$16,641 for the year ending December 31, 2021.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of percent, as well as what the plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (5.34%) or one percentage point higher (6.34%) than the current rate (4.34%):

Muhlenberg County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

	1% Decrease (4.34%)	Current Discount Rate (5.34%)	1% Increase (6.34%)
<i>Nonhazardous</i>			
District's proportionate share of the net OPEB liability	\$ 871,122	\$ 678,071	\$ 519,511

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), 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 one percentage pointer lower or one percentage point higher than the current rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
<i>Nonhazardous</i>			
District's proportionate share of the net OPEB liability	\$ 524,996	\$ 678,071	\$ 863,830

Contributions

Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. As of December 31, 2019, the employer contribution rate was 4.76% from January 1, 2020 through June 30, 2020 and 4.76% from July 1, 2020 through December 31, 2020, respectively of members' nonhazardous salaries. The District contributed \$34,798 or 100% of the required contribution to the insurance fund for the year ended December 31, 2020. Senate Bill 249 passed during the 2020 Legislative Session, it included the phase-in provisions from House Bill 362 (passed in 2018) which kept CERS contributions level for the fiscal year ending 2021.

Employees hired after September 1, 2008 are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits and the 1% contribution to 401(h) account is non-refundable.

Muhlenberg County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the District reported a net OPEB liability of \$678,071 for its proportionate share of the CERS 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 June 30, 2019, rolled forward to June 30, 2020 using generally accepted actuarial principles. The District's proportion of the net OPEB liability was determined using the District's actual contributions for the plan year ended June 30, 2020. This method is expected to be reflective of the District's long-term contribution effort. At June 30, 2020, the District's proportion was 0.028081 percent for nonhazardous classified employees.

For the year ended December 31, 2020, the District recognized OPEB expense of \$73,706. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Types of Deferred Resources</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Net Amounts</u>
Net difference between projected & actual earnings on pension plan investments	\$ 113,291	\$ 113,380	\$ (89)
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,081	2,185	3,896
Change of assumptions	117,944	717	117,227
Contributions subsequent to the measurement date, including implicit subsidy	34,533	-	34,533
Difference between expected & actual experience	<u>36,374</u>	<u>13,836</u>	<u>22,538</u>
Total	<u>\$ 308,223</u>	<u>\$ 130,118</u>	<u>\$ 178,105</u>

The \$34,533 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and June 30, 2020 implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2021.

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

<u>Years Ending December 31,</u>	<u>Amortization (Accretion)</u>
2021	\$ 37,977
2022	44,647
2023	31,868
2024	30,710
2025	<u>(1,630)</u>
Total	<u>\$ 143,572</u>

Payables to the OPEB plan

At December 31, 2020, the District had paid its contractually required employee and employer contributions primarily for the month ended December 31, 2020, within prescribed time limits.

Muhlenberg County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

6. DEBT OBLIGATIONS
Revenue Bonds Payable

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2020</u>	<u>Due in One Year</u>
Waterworks Refunding Bonds Series 2007-D	4.175%-4.55%	2027	\$ 850,000	\$ 105,000
Waterworks Refunding Bonds Series 2013-B	2.30%-4.30%	2021	65,000	65,000
Waterworks Construction Bonds Series 2013-C	4.30%-4.80%	2023	<u>390,000</u>	<u>125,000</u>
Total			1,305,000	<u>\$ 295,000</u>
Less current portion			(295,000)	
Plus unamortized bond premium on long-term debt			<u>29,429</u>	
Long-term portion			<u>\$ 1,039,429</u>	

Series 2007-D

A bond resolution dated July 1, 2007, authorized issuance of \$1,895,000 of refunding revenue bonds maturing in annual installments through 2027. Interest is paid semi-annually on January 1, and July 1, from 4.175% to 4.55% per annum and principal is payable annually on July 1.

Series 2013-B

A bond resolution dated March 27, 2013, authorized issuance of \$1,255,000 of refunding revenue bonds maturing in annual installments through 2021. Interest is paid semi-annually on January 1, and July 1, from 2.300% to 4.300% per annum and principal is payable annually on January 1.

Series 2013-C

A bond resolution dated March 27, 2013, authorized issuance of \$1,150,000 of refunding revenue bonds maturing in annual installments through 2023. Interest is paid semi-annually on January 1, and July 1, from 2.300% to 4.800% per annum and principal is payable annually on January 1.

Principal and interest requirements of the revenue bonds payable exclusive of unamortized bond premium as of December 31, 2020 are:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest & Fees</u>	<u>Total</u>
2021	\$ 295,000	\$ 54,830	\$ 49,830
2022	240,000	43,173	283,173
2023	250,000	32,133	282,133
2024	120,000	23,660	143,660
2025	125,000	18,200	143,200
2026	135,000	12,512	147,512
2027	<u>140,000</u>	<u>6,370</u>	<u>146,370</u>
Total	<u>\$ 1,305,000</u>	<u>\$ 190,878</u>	<u>\$ 1,495,878</u>

Muhlenberg County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

Changes in Business-Type Activities Debt

A summary of changes in the business-type activities debt for the year ended December 31, 2020 follows:

	Balance12/31 /2019	Loans Incurred	Principal Payments	Balance12/31 /2020	Due Within One Year
<u>Business-Type Activities:</u>					
Revenue Bonds Payable	\$ 1,595,000	\$ -	\$ 290,000	\$ 1,305,000	\$ 295,000
Total Business-Type Activities	<u>\$ 1,595,000</u>	<u>\$ -</u>	<u>\$ 290,000</u>	1,305,000	<u>\$ 295,000</u>
Unamortized bond premium				29,429	
Long-term debt due in one year				<u>(295,000)</u>	
Long-term debt due after one year				<u>\$ 1,039,429</u>	

7. **COMMITMENTS**

Purchase Contracts

Central City Municipal Water and Sewer

On June 20, 2011, the District entered into a new agreement with the City of Central City, Kentucky to continue to purchase treated water from the City's new water treatment plant. The contract became effective April 1, 2012 for a period of 50 years and states that the initial rate will be \$2.63 per 1,000 gallons of water purchased. The District purchased \$1,314,875 and \$1,151,283 from Central City during the years ended December 31, 2020 and 2019, respectively.

Todd County Water District

On May 1, 2006, the District entered into a long-term contract with Todd County Water District for the purchase of treated water. The contract for water is for a period of 25 years and calls for water sales not to exceed 800,000 gallons per month at a rate of \$4.85 per 1,000 gallons. Water rate increases imposed by Todd County Water District will be passed onto the District as they occur. The District purchased \$3,736 and \$4,224 from Todd County Water District during the years ended December 31, 2020 and 2019, respectively.

Wholesale Contract

The District sells water on a wholesale basis to the City of Drakesboro, Kentucky. The original October 1967 contract was amended in May 1997, to extend water sales to October 2047. The District has the authority by the Public Service Commission of Kentucky, to periodically adjust the rates charged to the City of Drakesboro. Total sales to the City of Drakesboro during the years ended December 31, 2020 and 2019 were \$97,456 and \$103,960, respectively.

8. **PUBLIC SERVICE COMMISSION REGULATIONS**

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2020 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This District has fulfilled this requirement.

Muhlenberg County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

9. **LITIGATION**

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Muhlenberg County Water District
County Employees Retirement System
Schedule of Proportionate Share of the Net Pension Liability
as of December 31
Last Ten Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Nonhazardous</u>							
District's proportion of the net pension liability (asset)	0.028089%	0.027548%	0.027424%	0.027477%	0.025642%	0.030526%	0.031616%
District's proportion of the net pension liability (asset)	\$ 2,154,403	\$ 1,937,463	\$ 1,670,266	\$ 1,608,313	\$ 1,262,538	\$ 1,312,459	\$ 1,025,728
District's covered employee payroll	\$ 731,070	\$ 718,749	\$ 677,129	\$ 668,998	\$ 633,013	\$ 631,069	\$ 672,959
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	294.69%	269.56%	246.67%	240.41%	199.45%	207.97%	152.42%
Plan fiduciary net position as a percentage of the total pension liability (2)	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%

(1) The amounts presented for the fiscal year were determined as of the prior fiscal year ending June 30. District payroll is reported for its' covered employees on calendar years ending December 31.

(2) This will be the same percentage for all participant employers in the CERS plan.

Muhlenberg County Water District
County Employees Retirement System
Schedule of Pension Contributions
as of December 31
Last Ten Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Nonhazardous</u>							
Contractually required contributions	\$ 141,097	\$ 128,107	\$ 104,143	\$ 95,858	\$ 83,853	\$ 79,731	\$ 100,144
Contributions in relation to the contractually required contributions	<u>141,097</u>	<u>128,107</u>	<u>104,143</u>	<u>95,858</u>	<u>83,853</u>	<u>79,731</u>	<u>100,144</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 731,070	\$ 718,749	\$ 677,129	\$ 678,780	\$ 633,013	\$ 631,069	\$ 672,959
Contributions as a percentage of covered employee payroll							
January to June rates	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
July to December rates	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%

Notes:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the District will present information as it becomes available.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of CERS. The above contributions only include those allocated directly to the CERS pension fund.

Muhlenberg County Water District
County Employees Retirement System
Schedule of Changes in Pension Benefits and Assumptions
For the Year Ended December 31, 2020

Note A - Changes of Assumptions::

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

2015:

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2017:

The actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as June 30, 2017.

Inflation	2.30%
Salary increases	3.05%, average
Investment rate of return	6.25%, net of pension plan investment expense including inflation

2018:

There have been no changes in actuarial assumptions since June 30, 2017.

2019:

The assumed salary increases were increased to 3.30% to 11.55%, from 3.05% to 18.55%

2020:

There have been no changes in actuarial assumptions since June 30, 2019.

Muhlenberg County Water District
County Employees Retirement System
Schedule of Changes in Pension Benefits and Assumptions
For the Year Ended December 31, 2020

Note B - Method and assumptions used in calculations of actuarially determined contribution

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2020, determined as of June 30, 2019. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Valuation date	June 30, 2018
Experience study	July 1, 2013 - June 30, 2018
Actual cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Payroll growth rate	2.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service for CERS
Investment rate of return	6.25%
Phase-In provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

Note C - Changes of Benefits

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

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

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

2018: House Bill 185 was enacted, which updated benefit provisions for active members who die in the line of duty.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the District will present information for those years for which information is available.

Muhlenberg County Water District
County Employees Retirement System OPEB Plan
Schedule of Proportionate Share of the Net Other Post Employment Benefits Liability
as of December 31
Last Ten Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Nonhazardous</u>					
District's proportion of the net OPEB liability (asset)	0.028081%	0.027541%	0.027424%	0.027477%	0.027477%
District's proportion of the net OPEB liability (asset)	\$ 678,071	\$ 463,227	\$ 486,908	\$ 552,382	\$ 433,272
District's covered employee payroll	\$ 731,070	\$ 718,749	\$ 677,129	\$ 673,780	\$ 633,013
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	92.75%	64.45%	71.91%	81.98%	68.45%
Plan fiduciary net position as a percentage of the total OPEB liability (2)	51.67%	60.44%	57.62%	52.39%	55.24%

(1) The amounts presented for the fiscal year were determined as of the prior fiscal year ending June 30. District payroll is reported for its' covered employees on calendar years ending December 31.

(2) This will be the same percentage for all participant employers in the CERS plan.

Muhlenberg County Water District
County Employees Retirement System OPEB Plan
Schedule of Other Post Employment Benefit Contributions
as of December 31
Last Ten Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Nonhazardous</u>					
Statorily required contributions	\$ 34,799	\$ 35,935	\$ 33,787	\$ 31,763	\$ 29,651
Contributions in relation to the contractually required contributions	<u>34,799</u>	<u>35,935</u>	<u>33,787</u>	<u>31,763</u>	<u>29,651</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 731,070	\$ 718,749	\$ 677,129	\$ 673,780	\$ 633,013
Contributions as a percentage of covered employee payroll					
January to June rates	4.76%	5.26%	4.70%	4.73%	4.64%
July to December rates	4.76%	4.76%	5.26%	4.70%	4.73%

Notes:

Contributions in relation to statutorily required OPEB contributions are the contributions an employer actually made to the OPEB Plan, as distinct from the statutorily required contributions.

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the District will present information as it becomes available.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of CERS. The above contributions only include those allocated directly to the CERS insurance fund.

Muhlenberg County Water District
County Employees Retirement System OPEB Plan
Schedule of Changes in OPEB Benefits and Assumptions
For the Year Ended December 31, 2020

Note A - Change of Assumptions

2017

The actuarial valuation was performed as of June 30, 2016. Gabriel Roeder Smith Retirement Consulting rolled forward from the valuation date to the plan's fiscal year end of June 30, 2017 using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as June 30, 2017. Specifically, a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

2018

There have been no changes in actuarial assumptions since June 30, 2017.

2019

The payroll growth rate was reduced to 2.0% from 4.0%.

The inflation rate was reduced to 2.30% from 3.25%.

The investment rate of return was reduced to 6.25% from 7.50%.

2020:

There have been no changes in actuarial assumptions since June 30, 2019.

Note B - Method and assumptions used in calculations of actuarially determined contributions

Methods and assumptions used in the actuarially determined contributions - The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule for the year ending June 30, 2020.

Valuation date	June 30, 2018
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Payroll growth rate	2.00%, CERS non-hazardous
Investment rate of return	6.25% net of plan investment expense, including inflation
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post - 65	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

Muhlenberg County Water District
County Employees Retirement System OPEB Plan
Schedule of Changes in OPEB Benefits and Assumptions
For the Year Ended December 31, 2020

Note C - Changes of Benefits

There were no changes to benefits for OPEB plan.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the District will present information for those years for which information is available.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Muhlenberg County Water District
Greenville, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Muhlenberg County Water District, as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Muhlenberg County Water District's basic financial statements and have issued our report thereon dated May 14, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (2020-1 and 2019-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muhlenberg County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items (2020-1 and 2019-1).

Muhlenberg County Water District's Response to Findings

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

Purpose of this Report

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

We also noted certain matters that we have reported to management of the Muhlenberg County Water District, in a separate letter dated May 14, 2021.

This report is intended solely for the information of the District commission and management. However, this report is a matter of public record and its distribution is not limited.

Duguid, Gentry & Associates, P.S.C.

Duguid, Gentry & Associates, P.S.C.

Certified Public Accountants
Hopkinsville, Kentucky

May 14, 2021

Muhlenberg County Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2020

2020-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We concur with the finding.

2019-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We concur with the finding.