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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Muhlenberg County Water District Number 3  
Bremen, Kentucky

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

We have audited the accompanying financial statements of Muhlenberg County Water District Number 3 as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muhlenberg County Water District Number 3 as of December 31, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 and pension and OPEB schedules on pages 28-31 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 6, 2021, on our consideration of Muhlenberg County Water District Number 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Muhlenberg County Water District Number 3'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 Number 3's internal control over financial reporting and compliance.

*Knight Wagner, PLLC*

Madisonville, Kentucky  
May 6, 2021

MUHLENBERG COUNTY WATER DISTRICT NUMBER 3  
Management's Discussion and Analysis  
December 31, 2020 and 2019

The discussion and analysis of the Muhlenberg County Water District Number 3's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2020 and 2019. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2020

- The District's change in net position was a decrease of \$21.9 thousand for the year ended December 31, 2020.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statements of Net Position include information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snap-shot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statements of Revenues, Expenses, and Changes in Fund Net Position include the District's revenues and expenses for the years ended December 31, 2020 and 2019. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

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

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

## District Financial Analysis

A summary of the District's Statements of Net Position is presented below.

Table 1  
Condensed Statements of Net Position  
(in thousands)

	<u>2020</u>	<u>2019</u>	<u>dollar change</u>	<u>percent change</u>	<u>2018</u>	<u>dollar change</u>	<u>percent change</u>
Current assets	\$ 910.1	\$ 834.8	\$ 75.3	9.0%	\$ 859.5	(\$ 24.7)	( 2.9%)
Capital assets	2,172.8	2,109.7	63.1	3.0%	2,115.1	( 5.4)	( 0.3%)
Other noncurrent assets	<u>100.2</u>	<u>185.2</u>	( 85.0)	( 45.9%)	<u>187.5</u>	( 2.3)	( 1.2%)
Total assets	<u>3,183.1</u>	<u>3,129.7</u>	53.4	1.7%	<u>3,162.1</u>	( 32.4)	( 1.0%)
 Total deferred outflows of resources	 <u>233.7</u>	 <u>168.4</u>	 65.3	 38.8%	 <u>162.6</u>	 5.8	 3.6%
Current liabilities	68.4	73.7	( 5.3)	( 7.2%)	70.9	2.8	3.9%
Long-term liabilities	<u>991.0</u>	<u>812.1</u>	178.9	22.0%	<u>751.1</u>	61.0	8.1%
Total liabilities	<u>1,059.4</u>	<u>885.8</u>	173.6	19.6%	<u>822.0</u>	63.8	7.8%
 Total deferred inflows of resources	 <u>69.8</u>	 <u>102.8</u>	 ( 33.0)	 ( 32.1%)	 <u>93.0</u>	 9.8	 10.5%
 Net assets invested in capital assets, net of related debt	 2,172.9	 2,109.7	 63.2	 3.0%	 2,115.1	 ( 5.4)	 ( 0.3%)
Unrestricted net position	<u>114.7</u>	<u>199.8</u>	( 85.1)	( 42.6%)	<u>294.6</u>	( 94.8)	( 32.2%)
Total net position	<u>\$2,287.6</u>	<u>\$2,309.5</u>	(\$ 21.9)	( 0.9%)	<u>\$2,409.7</u>	(\$ 100.2)	( 4.2%)

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2.3095 million at the close of the current year.

### 2019 to 2020

As shown in table 1, the District's total assets increased by \$53,400 from \$3,129,700 to \$3,183,100. Current assets increased \$75,300. This was due to increases in cash and cash equivalents which increased \$68,200. The District's cash flow statement shows a significant increase in cash from operating activities. This is primarily due to the District selling water for a full year at increased water rates which were approved in 2019. Capital assets increased \$63,100 as capital asset acquisitions out paced depreciation expense. Other noncurrent assets decreased \$85,000 as restricted cash accounts were used to purchase the capital asset acquisitions.

Deferred outflows of resources increased \$65,300 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements for both pensions and OPEB.

The District's long-term liabilities increased \$178,900. Net pension liability increased \$98,000 and net OPEB liability increased \$79,500, also due to the District's proportional share of CERS valuation measurements.

Deferred inflows of resources decreased \$33,000 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements for both pensions and OPEB.

### 2018 to 2019

As shown in table 1, the District's total assets decreased by \$32,400 from \$3,162,100 to \$3,129,700. Current assets decreased \$24,700. This was due to decreases in cash and cash equivalents which decreased \$39,000 and increases in accounts receivable which increased \$14,000. The District's cash flow statement shows an decrease in cash in approximately the same amount as the prior year with more cash being expended on capital items. Accounts receivable increased from the prior year as a result of timing of receivables as well as an increase in residential customer receivables due to a significant increase in water rates during the year. Capital assets decreased \$5,400 as depreciation expense out paced capital asset acquisitions. Other noncurrent assets decreased \$2,300 as restricted cash accounts remained similar to the prior year.

Deferred outflows of resources increased \$5,800 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements for both pensions and OPEB.

The District's long-term liabilities increased \$61,000. Net pension liability increased \$72,000 and net OPEB liability decreased \$12,000, also due to the District's proportional share of CERS valuation measurements.

Deferred inflows of resources increased \$10,000 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements for both pensions and OPEB.

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position is presented below.

Table 2  
Condensed Statements of Revenues, Expenses and Changes in Net Position  
(in thousands)

	<u>2020</u>	<u>2019</u>	<u>dollar change</u>	<u>percent change</u>	<u>2018</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$1,292.0	\$1,215.4	\$ 76.6	6.3%	\$1,262.5	(\$ 47.1)	( 3.7%)
Nonoperating revenues	<u>7.5</u>	<u>5.6</u>	1.9	33.9%	<u>5.9</u>	( 0.3)	( 5.1%)
Total revenues	<u>1,299.5</u>	<u>1,221.0</u>	78.5	6.4%	<u>1,268.4</u>	( 47.4)	( 3.7%)
Operating expenses	1,331.2	1,330.6	0.6	0.0%	1,393.2	( 62.6)	( 4.5%)
Nonoperating expenses	<u>0.2</u>	<u>0.1</u>	0.1	100.0%	<u>0.0</u>	0.1	0.0%
Total expenses	<u>1,331.4</u>	<u>1,330.7</u>	0.7	0.1%	<u>1,393.2</u>	( 62.5)	( 4.5%)
Income (loss) before capital contributions	( 31.9)	( 109.7)	77.8	70.9%	( 124.8)	15.1	12.1%
Capital contributions	<u>10.0</u>	<u>9.5</u>	0.5	5.3%	<u>13.1</u>	( 3.6)	( 27.5%)
Changes in net position	( 21.9)	( 100.2)	78.3	78.1%	( 111.7)	11.5	10.3%
Beginning net position	<u>2,309.5</u>	<u>2,409.7</u>	( 100.2)	( 4.2%)	<u>*2,521.4</u>	( 111.7)	( 4.4%)
Ending net position	<u>\$2,287.6</u>	<u>\$2,309.5</u>	(\$ 21.9)	( 0.9%)	<u>\$2,409.7</u>	(\$ 100.2)	( 4.2%)

\* as restated.

### 2019 to 2020

As shown in table 2, the District's operating revenues increased \$76,600. Water sales increased \$99,000 primarily due to a 2019 26.1% increase in water rates. The District experienced a full year effect of the rate increase in 2020. Other operating revenues decreased \$22,600 primarily due to state restrictions on late charge penalties during the Covid-19 pandemic.

The District's operating expenses remained similar to the prior year. Employee benefits increased \$34,500 due to increases in pension expense as determined by CERS. Contract services decreased \$43,600 primarily due to decreased legal fees.

Capital contributions increased \$500 remaining similar to the prior year.

Changes in net position decreased \$21,900 due to the net effect of the above changes.

#### 2018 to 2019

As shown in table 2, the District's operating revenues decreased \$47,100. Residential water sales increased \$102,000 primarily due to a 26.1% increase in water rates. Commercial water sales decreased \$47,100 due to the slow down of a couple of larger commercial customers. Resale water sales decreased \$103,000 as the District's one resale customer has stopped purchasing water from the District in the prior year.

The District's operating expenses decreased \$62,500 from the prior year. Purchased water decreased \$81,000 primarily resulting from the loss of the District's one resale customer for the full year. Contract services increased \$37,000 primarily due to increased legal fees.

Capital contributions decreased \$3,600 due to an decrease in customer funding of small construction projects.

Changes in net position decreased \$100,200 due to the net effect of the above changes.

#### Capital Assets and Debt Administration

##### Capital Assets

At December 31, 2020 the District had \$2,172,871 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$63,178 from the prior year.

Significant expenditures during the year included \$73,400 on pump station improvements, \$12,540 on a SCADA update, and \$27,364 on the purchase of a new truck.

At December 31, 2019 the District had \$2,109,693 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net decrease (additions, retirements, depreciation) of \$5,450 from the prior year.

Significant expenditures during the year included \$30,594 on meters, \$29,453 on a SCADA update, \$10,058 on pumps, \$8,100 on a generator, \$8,108 on mapping software, and \$7,093 on a flow meter.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

##### Long-Term Debt

At December 31, 2020, the District had \$21,000, net additions of \$945, in long-term liabilities which consisted of customer deposits. There were no new borrowings.

At December 31, 2019, the District had \$20,055, net additions of \$945, in long-term liabilities which consisted of customer deposits. There were no new borrowings.

Additional information on the District's long-term debt can be found in Note F of the financial statements.

#### Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

#### Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Muhlenberg County Water District Number 3, 4815 Main Street, Bremen, Kentucky 42325.



Muhlenberg County Water District Number 3  
Statement of Net Position  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 710,499	\$ 642,252
Accounts receivable	166,427	161,811
Material and parts inventory	22,673	20,648
Prepaid expenses	<u>10,453</u>	<u>10,114</u>
Total current assets	<u>910,052</u>	<u>834,825</u>
Noncurrent assets		
Restricted cash and cash equivalents	100,217	185,166
Capital assets:		
Nondepreciable	22,950	22,950
Depreciable, net of accumulated depreciation	<u>2,149,922</u>	<u>2,086,745</u>
Total noncurrent assets	<u>2,273,089</u>	<u>2,294,861</u>
Total assets	<u>3,183,141</u>	<u>3,129,686</u>
<u>Deferred outflows of resources</u>		
Deferred outflows of resources-pensions	128,542	116,346
Deferred outflows of resources-OPEB	<u>105,134</u>	<u>52,075</u>
Total deferred outflows of resources	<u>233,676</u>	<u>168,421</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	49,548	58,473
Accrued taxes and other payables	2,642	1,231
Accumulated compensated absences	<u>11,317</u>	<u>8,651</u>
	<u>63,507</u>	<u>68,355</u>
Current liabilities payable from restricted assets		
Customer deposits	<u>4,924</u>	<u>5,333</u>
	<u>4,924</u>	<u>5,333</u>
Total current liabilities	<u>68,431</u>	<u>73,688</u>
Long-term liabilities		
Net pension liability	741,528	643,524
Net OPEB liability	233,380	153,865
Customer deposits	<u>16,076</u>	<u>14,722</u>
Total noncurrent liabilities	<u>990,984</u>	<u>812,111</u>
Total liabilities	<u>1,059,415</u>	<u>885,799</u>
<u>Deferred inflows of resources</u>		
Deferred inflows of resources-pensions	19,752	40,563
Deferred inflows of resources-OPEB	<u>50,079</u>	<u>62,265</u>
Total deferred inflows of resources	<u>69,831</u>	<u>102,828</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	2,172,872	2,109,695
Unrestricted	<u>114,699</u>	<u>199,785</u>
Total net position	<u>\$2,287,571</u>	<u>\$2,309,480</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Years Ended December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
Operating revenues		
Water sales	\$1,270,486	\$1,171,209
Other operating revenues	<u>21,572</u>	<u>44,228</u>
Total operating revenues	<u>1,292,058</u>	<u>1,215,437</u>
Operating expenses		
Purchased water	549,595	545,322
Salaries and wages	286,656	267,665
Depreciation	106,187	103,610
Employee benefits	188,043	153,494
Transportation	11,004	10,245
Contract services	46,462	90,074
Taxes	22,066	20,662
Purchased power	20,167	27,257
Materials and supplies	41,850	51,209
Insurance	20,245	20,777
Miscellaneous	31,550	34,718
Regulatory commission expense	2,442	2,470
Uncollectible accounts	<u>4,913</u>	<u>3,135</u>
Total operating expenses	<u>1,331,180</u>	<u>1,330,638</u>
Operating income (loss)	( 39,122)	( 115,201)
Nonoperating revenues (expenses)		
Interest income	7,463	5,612
Interest expense	( 4)	( 5)
Gains (losses) on disposition of capital assets	<u>( 204)</u>	<u>( 102)</u>
Total nonoperating revenues (expenses)	<u>7,255</u>	<u>5,505</u>
Income (loss) before contributions	( 31,867)	( 109,696)
Capital contributions-tap fees	9,600	9,450
Capital contributions-customers	<u>358</u>	<u>0</u>
Change in net position	( 21,909)	( 100,246)
Net position beginning of year, 2018 as restated, see Note L	<u>2,309,480</u>	<u>2,409,726</u>
Net position end of year	<u>\$2,287,571</u>	<u>\$2,309,480</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3  
Statement of Cash Flows  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$1,260,957	\$1,154,089
Cash payments to suppliers for goods and services	( 860,424)	( 888,891)
Cash payments to employees for services	( 286,656)	( 267,665)
Other operating revenues	<u>21,572</u>	<u>44,228</u>
Net cash provided (used) by operating activities	135,449	41,761
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	( 171,269)	( 98,886)
Interest paid on customer deposits	( 4)	( 5)
Capital contributions received from customers	9,958	9,450
Proceeds received on disposition of capital assets	<u>1,701</u>	<u>623</u>
Net cash provided (used) for capital and related financing activities	( 159,614)	( 88,818)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>7,463</u>	<u>5,612</u>
Net cash provided (used) for investing activities	7,463	5,612
Net increase (decrease) in cash and cash equivalents	( 16,702)	( 41,445)
Cash and cash equivalents at beginning of year	<u>827,418</u>	<u>868,863</u>
Cash and cash equivalents at end of year	<u>\$ 810,716</u>	<u>\$ 827,418</u>
<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	(\$ 39,122)	(\$ 115,201)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	106,187	103,610
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	( 4,616)	( 13,985)
(Increase) decrease in inventory	( 2,025)	( 983)
(Increase) decrease in prepaid expenses	( 339)	486
(Increase) decrease in deferred outflows-pensions	( 12,196)	6,716
(Increase) decrease in deferred outflows-OPEB	( 53,059)	( 12,551)
Increase (decrease) in accounts payable	( 8,925)	5,269
Increase (decrease) in accrued expenses	1,411	( 1,639)
Increase (decrease) in net pension liability	98,004	72,497
Increase (decrease) in net OPEB liability	79,515	( 12,604)
Increase (decrease) in customer deposits	945	945
Increase (decrease) in accumulated compensated absences	2,666	( 652)
Increase (decrease) in deferred inflows-pensions	( 20,811)	( 16,467)
Increase (decrease) in deferred inflows-OPEB	<u>( 12,186)</u>	<u>26,320</u>
Total adjustments	<u>174,571</u>	<u>156,962</u>
Net cash provided by operating activities	<u>\$ 135,449</u>	<u>\$ 41,761</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3  
 Notes to Financial Statements  
December 31, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Muhlenberg County Water District Number 3 (the "District") conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies:

The Financial Reporting Entity

Muhlenberg County Water District Number 3 was created on April 24, 1967, under the provisions of Chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at Bremen, Kentucky. The District is composed of three commissioners who are appointed by the Muhlenberg County Judge Executive and provides water to its members in and around Muhlenberg County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statements No. 14 and 61. The District has no component units.

Basis of Presentation, Measurement Focus, and Basis of Accounting

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. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. Net position not otherwise classified as restricted, are shown as unrestricted. The statements of revenue, expenses, and changes in net position present increases (revenues) and decreases (expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

Muhlenberg County Water District Number 3  
 Notes to Financial Statements  
December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Proprietary funds distinguish operating revenues and expenses 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. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits are interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less. The District does not have a formal deposit and investment policy for credit risk, custodial credit risk, or limitations on deposits and investments.

Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2020 and 2019.

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	2 to 10 years
Vehicles	5 years

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Restricted Net Position

Restricted net position is cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements. The District currently doesn't have any restricted net position.

Long-Term Liabilities

Long-term debt is reported as liabilities in the statement of net position. Long-term debt is reported at face value.

Deferred Outflows/Inflows 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, *deferred outflows of resources*, 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) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Uncollectible Accounts

All accounts receivable are considered by management to be collectible, therefore no provision for uncollectible accounts has been established. Uncollectible accounts are expensed using the direct write-off method.

Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

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NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (1) in writing, (2) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

Also by Kentucky law, the District is allowed to invest as specified in KRS 66.480 which includes U. S. Treasury and its Obligations, certain federal investments, repurchase agreements, commercial banks' certificates of deposit, and savings and loan deposits.

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

On December 31, 2020, the reconciled balance of the District's deposits totaled \$810,716 and the bank balances were \$817,190. Of the bank balances \$500,000 was covered by federal depository insurance (category 1). Also of the bank balances, \$317,190 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

On December 31, 2019, the reconciled balance of the District's deposits totaled \$827,418 and the bank balances were \$833,614. Of the bank balances \$602,323 was covered by federal depository insurance (category 1). Also of the bank balances, \$231,291 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance, which represents the amount of unexpired insurance, which the District had previously paid for at the balance sheet date.

At December 31, 2020, the District's prepaid expenses consisted of \$10,453 of insurance. At December 31, 2019, the District's prepaid expenses consisted of \$10,114 of insurance.

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NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt (which has been fully paid), cash restricted for future operations, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Customer meter deposit fund	\$ 24,973	\$ 24,070
Construction fund	<u>75,244</u>	<u>161,096</u>
Totals	<u>\$ 100,217</u>	<u>\$ 185,166</u>

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2020 and 2019, were as follows:

	<u>Balances</u> <u>12/31/18</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/19</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/20</u>
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 22,950	\$ 0	\$ 0	\$ 22,950	\$ 0	\$ 0	\$ 22,950
Construction in progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>22,950</u>	<u>0</u>	<u>0</u>	<u>22,950</u>	<u>0</u>	<u>0</u>	<u>22,950</u>
Capital assets being depreciated							
Structures, improvements, & water system	3,715,504	41,645	11,601	3,745,548	119,568	19,430	3,845,686
Office furniture & equipment	69,627	2,571	0	72,198	2,461	0	74,659
Vehicles & equipment	117,254	0	0	117,254	27,364	0	144,618
Machinery & equipment	<u>475,067</u>	<u>54,669</u>	<u>0</u>	<u>529,736</u>	<u>21,876</u>	<u>1,840</u>	<u>549,772</u>
Total	<u>4,377,452</u>	<u>98,885</u>	<u>11,601</u>	<u>4,464,736</u>	<u>171,269</u>	<u>21,270</u>	<u>4,614,735</u>
Total capital assets	<u>4,400,402</u>	<u>98,885</u>	<u>11,601</u>	<u>4,487,686</u>	<u>171,269</u>	<u>21,270</u>	<u>4,437,685</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	1,881,374	67,374	10,876	1,937,872	68,708	17,526	1,989,054
Office furniture & equipment	50,330	4,667	0	54,997	4,328	0	59,325
Vehicles & equipment	77,913	11,043	0	88,956	10,792	0	99,748
Machinery & equipment	<u>275,642</u>	<u>20,526</u>	<u>0</u>	<u>296,168</u>	<u>22,359</u>	<u>1,840</u>	<u>316,687</u>
Total accumulated depreciation	<u>2,285,259</u>	<u>103,610</u>	<u>10,876</u>	<u>2,377,993</u>	<u>106,187</u>	<u>19,366</u>	<u>2,464,814</u>
Total business-type activities capital assets, net	<u>\$2,115,143</u>	<u>(\$ 4,725)</u>	<u>\$ 725</u>	<u>\$2,109,693</u>	<u>\$ 65,082</u>	<u>\$ 1,904</u>	<u>\$2,172,871</u>



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NOTE F – LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2020 and 2019, were as follows:

	Balances			Balances			Balances	Amounts
	<u>12/31/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/19</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/20</u>	<u>Due Within</u>
								<u>One Year</u>
Customer Deposits	\$ 19,110	\$ 5,425	\$ 4,480	\$ 20,055	\$ 5,705	\$ 4,760	\$ 21,000	\$ 4,924
Business-type Activities Long- Term Liabilities	\$ 19,110	\$ 5,425	\$ 4,480	\$ 20,055	\$ 5,705	\$ 4,760	\$ 21,000	\$ 4,924

NOTE G - ACCUMULATED COMPENSATED ABSENCES

Effective March 2011 employees are no longer permitted to accumulate earned but unused vacation days beyond one year. The employees must use or cash out their yearly allotment of vacation time earned by the annual anniversary date of their employment.

NOTE H - EMPLOYEES' PENSION PLAN

General Information about the Pension Plan

*Plan Description.* The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems. The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

*Benefits provided.* Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. There are currently three benefit tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 members are those that began participation 9/1/2008 through 12/31/2013, and Tier 3 are those members that began participation on or after 1/1/2014.

NOTE H - EMPLOYEES' PENSION PLAN continued

*Benefits provided-non hazardous.* Tier 1 non-hazardous members are eligible to retire with an unreduced benefit at age 65 with at least one month of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available prior to age 65 with at least 25 but less than 27 years of service credit and at age 55 with at least 5 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 non-hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 non-hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

*Contributions.* Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended December 31, 2020, plan members were required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 were required to contribute 6% of their annual creditable compensation. The District is required to contribute at an actuarial determined rate. The District was required to contribute 24.06% or \$31,810 of each employee's creditable compensation for the last six months of the year ended December 31, 2020. Of the 24.06%, 19.30% or \$25,516 was comprised of amounts for pensions. The District was required to contribute 24.06% or \$59,585 of each employee's creditable compensation for the first six months of the year ended December 31, 2020 and for the final six months of the year ended December 31, 2019. Of the 24.06%, 19.30% or \$47,797 was comprised of amounts for pensions. The District was required to contribute 21.48% or \$37,436 of each employee's creditable compensation for the first six months of the year ended December 31, 2019 and for the final six months of the year ended December 31, 2018. Of the 21.48%, 16.32% or \$37,436 was comprised of amounts for pensions. The District was required to contribute 19.18% or \$23,080 of each employee's creditable compensation for the first six months of the year ended December 31, 2018. Of the 19.18%, 14.48% or \$17,424 was comprised of amounts for pensions. The District's payable to the plan at December 31, 2020 and 2019 was \$0 and \$0, respectively, which consisted of employees' withholdings and legally required contributions for the month of December.

Muhlenberg County Water District Number 3  
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NOTE H - EMPLOYEES' PENSION PLAN continued

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

At December 31, 2020, the District reported a liability of \$741,528 for its proportionate share of the net pension liability. The District's net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2020. At December 31, 2019, the District reported a liability of \$643,524 for its proportionate share of the net pension liability. The District's net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2019.

For the year ended December 31, 2020, the District recognized pension expense of \$115,879. For the year ended December 31, 2019, the District recognized pension expense of \$103,252. At December 31, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>12/31/2020</u>		<u>12/31/2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 32,143	\$ 13,587	\$ 12,353	\$ 22,727
Net difference between expected and actual experience	18,491	-	16,431	2,719
Changes in proportional and differences between employer contributions and proportional share of contributions	23,437	6,165	-	15,117
Change of assumptions	28,955	-	65,132	-
District contributions subsequent to the measurement date	<u>25,516</u>	<u>-</u>	<u>22,430</u>	<u>-</u>
Total	<u>\$ 128,542</u>	<u>\$ 19,752</u>	<u>\$ 116,346</u>	<u>\$ 40,563</u>

\$25,516 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 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:

Year ended December 31:	
2021	\$ 35,969
2022	29,343
2023	10,510
2024	7,452

*Actuarial assumptions.*

The total pension liability in the June 30, 2020 and 2019 actuarial valuations using standard roll-forward techniques, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

2020

Inflation	2.30%
Salary increases	3.300% to 11.55%, varies by service
Investment rate of return	6.25%

Muhlenberg County Water District Number 3  
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December 31, 2020 and 2019

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NOTE H - EMPLOYEES' PENSION PLAN continued

2019

Inflation	2.30%
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 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.

The actuarial assumption used in the June 30, 2019 valuation and rolled forward to June 30, 2020 were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U S Equity	18.75%	4.50%
Non U S Equity	18.75	5.25
Private Equity	10.00	6.65
Specially Credit/High Yield	15.00	3.90
Core Bonds	13.50	-0.25
Cash	1.00	-0.75
Real Estate	5.00	5.30
Opportunistic	3.00	2.25
Real Return	<u>15.00</u>	3.95
Total	<u>100.00%</u>	

*Discount rate.* For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

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NOTE H - EMPLOYEES' PENSION PLAN continued

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25% for June 30, 2020 and 6.25% for June 30, 2019, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25% and 5.25%) or 1-percentage-point higher (7.25% and 7.25%) than the current rate.

	<u>1% Decrease</u> <u>(5.25%)</u>	<u>Discount Rate</u> <u>(6.25%)</u>	<u>1% Increase</u> <u>(7.25%)</u>
District's 2020 proportionate share of the net pension liability	\$ 914,465	\$ 741,528	\$ 598,329
	<u>1% Decrease</u> <u>(5.25%)</u>	<u>Discount Rate</u> <u>(6.25%)</u>	<u>1% Increase</u> <u>(7.25%)</u>
District's 2019 proportionate share of the net pension liability	\$ 804,865	\$ 643,524	\$ 509,047

2020 and 2019

*Change in assumptions.* There were no changes in assumptions.

- 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.

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CERS.

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

*Plan Description.* The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems. The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

*Benefits provided.* The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. There are currently three benefit tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 members are those that began participation 9/1/2008 through 12/31/2013, and Tier 3 are those members that began participation on or after 1/1/2014.

*Benefits provided-non hazardous.* Non-hazardous members are eligible for health insurance coverage upon retirement. Each year prior to the Open Enrollment period, the KRS board establishes the contribution rate for the following plan year. The monthly contribution rate is based on single coverage under the insurance plan approved by the KRS Board. To be eligible, tier 1 members must have at least 120 months of service in a state-administered retirement system. If a member retires with less than 120 months of service credit, that member cannot participate in the health plans KRS offers. If eligible, KRS will pay a contribution toward the premium based on how many years of service the member had at retirement. For non-hazardous retirees, KRS pays \$10 toward the monthly premium for each full year of service the member has at retirement. To be eligible, tier 2 members must have at least 150 months of service in a state-administered retirement system. If a member retires with less than 150 months of service credit, that member cannot participate in the health plans KRS offers. If eligible, KRS will pay a contribution toward the premium based on how many years of service the member had at retirement. For non-hazardous retirees, KRS pays \$10 toward the monthly premium for each full year of service the member has at retirement. To be eligible, tier 3 members must have at least 15 years of service in a state-administered retirement system. If eligible, KRS will pay a contribution toward the premium based on how many years of service the member had at retirement. For non-hazardous retirees, KRS pays \$10 toward the monthly premium for each full year of service the member has at retirement.

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NOTE I -- OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

*Contributions.* Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended December 31, 2020, plan members were required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 were required to contribute 6% of their annual creditable compensation. The District is required to contribute at an actuarial determined rate. The District was required to contribute 24.06% or \$31,810 of each employee's creditable compensation for the last six months of the year ended December 31, 2020. Of the 24.06%, 4.76% or \$6,293 was comprised of amounts for insurance. The District was required to contribute 24.06% or \$59,585 of each employee's creditable compensation for the first six months of the year ended December 31, 2020 and for the final six months of the year ended December 31, 2019. Of the 24.06%, 4.76% or \$11,788 was comprised of amounts for insurance. The District was required to contribute 21.48% or \$49,577 of each employee's creditable compensation for the first six months of the year ended December 31, 2019 and for the final six months of the year ended December 31, 2018. Of the 21.48%, 5.26% or \$12,140 was comprised of amounts for insurance. The District was required to contribute 19.18% or \$23,080 of each employee's creditable compensation for the first six months of the year ended December 31, 2018. Of the 19.18%, 4.70% or \$5,655 was comprised of amounts for insurance. The District's payable to the plan at December 31, 2020 and 2019 was \$0 and \$0, respectively, which consisted of employees' withholdings and legally required contributions for the month of December.

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

At December 31, 2020, the District reported a liability of \$233,380 for its proportionate share of the net OPEB liability. The District's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2020. At December 31, 2019, the District reported a liability of \$153,865 for its proportionate share of the net OPEB liability. The District's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2019.

Muhlenberg County Water District Number 3  
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NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

For the year ended December 31, 2020, the District recognized OPEB expense of \$31,677. For the year ended December 31, 2019, the District recognized OPEB expense of \$15,235. At December 31, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	12/31/2020		12/31/2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 12,519	\$ 4,762	\$ 1,013	\$ 7,848
Net difference between expected and actual experience	38,993	39,023	-	46,425
Changes in proportional and differences between employer contributions and proportional share of contributions	6,735	6,047	-	7,688
Change of assumptions	40,594	247	45,530	304
District contributions subsequent to the measurement date	6,293	-	5,532	-
Total	<u>\$ 105,134</u>	<u>\$ 50,079</u>	<u>\$ 52,075</u>	<u>\$ 62,265</u>

\$6,293 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2021	\$ 12,862
2022	15,158
2023	10,761
2024	10,744
2025	( 764)

*Actuarial assumptions.*

The total OPEB liability in the June 30, 2020 and 2019 actuarial valuations using standard roll-forward techniques, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<u>2020</u>	
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Investment rate of return	6.25%
Healthcare cost trend rates (pre-65)	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Healthcare cost trend rates (post-65)	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years



Muhlenberg County Water District Number 3  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

2019

Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates (pre-65)	Initial trend starting at 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Healthcare cost trend rates (post-65)	Initial trend starting at 5.10% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years

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.

The actuarial assumption used in the June 30, 2019 valuation and rolled forward to June 30, 2020 was based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U S Equity	18.75%	4.50%
Non U S Equity	18.75	5.25
Private Equity	10.00	6.65
Specially Credit/High Yield	15.00	3.90
Core Bonds	13.50	-0.25
Cash	1.00	-0.75
Real Estate	5.00	5.30
Opportunistic	3.00	2.25
Real Return	<u>15.00</u>	3.95
Total	<u>100.00%</u>	

Muhlenberg County Water District Number 3  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

*Discount rate.* For CERS, the discount rate used to measure the total OPEB liability was 5.34% for 2020 and 5.68% for 2019. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

*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 5.34% for June 30, 2020 and 5.68% for June 30, 2019 as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34% and 4.68%) or 1-percentage-point higher (6.34% and 6.68%) than the current rate.

	1% Decrease (4.34%)	Discount Rate (5.34%)	1% Increase (6.34%)
District's 2020 proportionate share of the net OPEB liability	\$ 299,825	\$ 233,380	\$ 178,807
	1% Decrease (4.68%)	Discount Rate (5.68%)	1% Increase (6.68%)
District's 2019 proportionate share of the net OPEB liability	\$ 206,116	\$ 153,865	\$ 110,814

*Sensitivity of the District's proportionate share 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 healthcare cost trend rate, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	1% Decrease (6.0% & 4.0% decreasing to 3.05%)	Discount Rate (7.0% & 5.0% decreasing to 4.05%)	1% Increase (8.0% & 6.0% decreasing to 5.05%)
District's 2020 proportionate share of the net OPEB liability	\$ 180,695	\$ 233,380	\$ 297,316
	1% Decrease (6.25% & 4.1% decreasing to 3.05%)	Discount Rate (7.25% & 5.1% decreasing to 4.05%)	1% Increase (8.25% & 6.1% decreasing to 5.05%)
District's 2019 proportionate share of the net OPEB liability	\$ 114,430	\$ 153,865	\$ 201,685

Muhlenberg County Water District Number 3  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

2020

*Change in assumptions.* Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated. The changes are noted below:

- The discount rate decreased from 5.68% to 5.34% (non-hazardous).
- 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.

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

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## Required Supplementary Information



Muhlenberg County Water District Number 3  
 Schedule of District Contributions-Pension Plan  
 December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 50,882	\$ 40,507	\$ 36,784	\$ 32,611
Contributions in relation to the actuarially determined contribution	<u>50,882</u>	<u>40,507</u>	<u>36,784</u>	<u>32,611</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered-employee payroll	\$ 263,640	\$ 227,664	\$ 239,693	\$ 229,516
Contributions as a percentage of covered- employee payroll	19.30%	17.79%	15.35%	14.21%
	<u>2016</u>	<u>2015</u>		
Actuarially determined contribution	\$ 30,224	\$ 32,110		
Contributions in relation to the actuarially determined contribution	<u>30,244</u>	<u>32,110</u>		
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>		
District's covered-employee payroll	\$ 237,399	\$ 219,505		
Contributions as a percentage of covered- employee payroll	12.73%	14.63%		

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred

Muhlenberg County Water District District Number 3  
 Schedule of Proportionate Share of the Net OPEB Liability  
 December 31, 2020 and 2019

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	Last 10 years (Dollar amounts in thousands)			
	2020	2019	2018	2017
Total net OPEB liability for County Employees' Retirement System	\$ 3,338,801	\$ 2,421,815	\$ 2,488,439	\$ 2,837,014
District's proportion of the net OPEB liability (asset)	0.009665%	0.009150%	0.009376%	0.009638%
District's proportionate share of the net OPEB liability (asset)	\$ 233	\$ 154	\$ 166	\$ 194
District's covered-employer payroll	\$ 264	\$ 228	\$ 240	\$ 230
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employer payroll	88.52%	67.58%	69.17%	84.35%
Total OPEB plan's fiduciary net position	\$ 3,902,730	\$ 3,910,225	\$ 3,695,108	\$ 3,401,537
Total OPEB plan's pension liability	\$ 7,241,531	\$ 6,332,040	\$ 6,183,547	\$ 6,238,551
Total OPEB Plan's fiduciary net position as a percentage of the total OPEB liability	53.89%	61.75%	59.76%	55.42%

Note: This schedule is intended to present a 10-year trend per GASB 75. Additional years will be reported as incurred

Muhlenberg County Water District Number 3  
 Schedule of District Contributions-OPEB Plan  
 December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 12,549	\$ 11,394	\$ 11,934	\$ 10,823
Contributions in relation to the actuarially determined contribution	<u>15,549</u>	<u>11,394</u>	<u>11,934</u>	<u>10,823</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 District's covered-employee payroll	 \$ 263,640	 \$ 227,664	 \$ 239,693	 \$ 229,516
 Contributions as a percentage of covered- employee payroll	 4.76%	 5.00%	 4.98%	 4.72%

Note: This schedule is intended to present a 10-year trend per GASB 75. Additional years will be reported as incurred



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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 Commissioners  
Muhlenberg County Water District Number 3  
Bremen, 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 Muhlenberg County Water District Number 3 as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, and have issued our report thereon dated May 6, 2021.

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

In planning and performing our audit of the financial statements, we considered Muhlenberg County Water District Number 3'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 Number 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Muhlenberg County Water District Number 3'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 were not 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 certain deficiencies in internal control, as discussed below, that we consider to be significant deficiencies.

## 2020-1 Segregation of Duties

*Condition:* The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.

*Criteria:* Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

*Effect:* The lack of proper segregation of duties may permit errors or irregularities to go undetected.

*Cause:* There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.

*Recommendation:* While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.

*Response:* The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

## 2020-2 Lack of Financial Reporting Expertise

*Condition:* The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures. Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

*Criteria:* The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

*Effect:* The absence of such controls may allow errors to go undetected.

*Cause:* There is a lack of personnel who possess the required knowledge.

*Recommendation:* We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

*Response:* Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muhlenberg County Water District Number 3'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*.

## Muhlenberg County Water District Number 3's Response to Findings

Muhlenberg County Water District Number 3's response to the findings identified in our audit is described above. Muhlenberg County Water District Number 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 purposes.

*Knight Wagner, PLLC*

Madisonville, Kentucky

May 6, 2021