

LYON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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FOR THE YEAR ENDED DECEMBER 31, 2019

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JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Lyon County Water District
Kuttawa, Kentucky

We have audited the accompanying financial statements of the Lyon County Water District as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 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 assessments 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

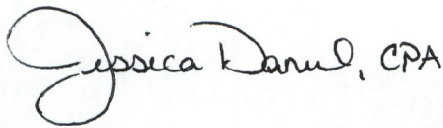
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Lyon County Water District as of December 31, 2019, and the respective changes in financial position, and, where applicable, cash 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 and budgetary comparison information, schedule of pension contributions, schedule of other postemployment benefits contributions, schedule of proportionate share of net pension liability, and schedule of proportionate share of other postemployment benefits liability on pages 3 through 6 and 30 through 34 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 a report dated June 30, 2020, on our consideration of the Lyon County Water District's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Jessica Daniel, CPA". The signature is written in a cursive style with a large, looped initial "J".

Eddyville, Kentucky
June 30, 2020

**LYON COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019
(UNAUDITED)**

The Lyon County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the years ended December 31, 2019. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

FINANCIAL HIGHLIGHTS

- The District's total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources as of December 31, 2019, by \$3,461,265 (Net Position).
- The District's total net position decreased by \$250,473 during the year compared to a \$234,940 decrease in the prior year.
- The District's operating revenues decreased by \$10,675 over the prior year from \$1,231,775 to \$1,221,100.

OVERVIEW OF THE FINANCIAL STATEMENTS

Lyon County Water District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net position. The statement of net position presents the financial position of the District. It presents information on the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the two 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 net position can be found on page 7.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 8 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 9.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 10-28 of this report.

Required Supplementary Information. In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 30-34.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

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 exceeded liabilities by \$3,461,265 as of December 31, 2019.

The District's overall financial position and operations for the past two years are summarized as follows:

LYON COUNTY WATER DISTRICT'S NET POSITION

	2019	2018
Assets		
Current and other assets	\$ 551,646	\$ 653,291
Capital assets	8,137,333	8,440,420
Restricted assets	283,912	264,796
Total Assets	8,972,891	9,358,507
Deferred Outflows of Resources	183,042	130,304
Liabilities		
Other liabilities	120,360	134,977
Current portion of long-term debt	184,082	198,469
Long-term liabilities	5,274,701	5,332,184
Total Liabilities	5,579,143	5,665,630
Deferred Inflows of Resources	115,525	111,443
Net Position		
Net investment in capital assets	3,290,739	3,393,633
Restricted	318,978	281,670
Unrestricted	(148,452)	36,435
Total Net Position	\$ 3,461,265	\$ 3,711,738

The District's 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 is \$3,290,739. 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 that 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 \$318,978 represents resources that are subject to external restriction on how they may be used. These resources are to be used for debt restrictions, capital projects, customer deposits, and prepaid expenses.

The District's unrestricted net assets as of December 31, 2019 is a negative \$148,452.

Analysis of the District's Operations – Overall the District had a decrease in net position of \$250,473.

The following table provides a summary of the District's operations for the year ended December 31, 2019 and 2018.

**LYON COUNTY WATER DISTRICT
CHANGES IN NET POSITION**

	<u>2019</u>	<u>2018</u>
Revenues		
Operating revenues	\$ 1,221,100	\$ 1,231,775
Investment income	2,922	2,956
Gain (loss) on sale of assets	(3,179)	-
Capital grants and contributions	<u>15,600</u>	<u>700</u>
Total revenues	<u>1,236,443</u>	<u>1,235,431</u>
Expenses		
Water expenses	1,002,378	976,347
Depreciation and amortization	340,377	328,032
Interest expense	113,454	137,430
Payroll and other taxes	14,186	14,601
Wastewater expenses	<u>16,521</u>	<u>13,961</u>
Total Expenses	<u>1,486,916</u>	<u>1,470,371</u>
Change in net position	(250,473)	(234,940)
Net position - January 1	<u>3,711,738</u>	<u>3,946,678</u>
Net position - December 31	<u>\$ 3,461,265</u>	<u>\$ 3,711,738</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District's investment in capital assets for business-type activities as of December 31, 2019, amounts to \$8,137,333 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure.

	<u>2019</u>	<u>2018</u>
Business-type activities		
Capital assets, not being depreciated		
Land	\$ 121,772	\$ 121,772
Construction in progress	<u>34,396</u>	<u>34,396</u>
Total capital assets, not being depreciated	<u>156,168</u>	<u>156,168</u>
Capital assets, being depreciated		
Distribution lines	7,089,499	7,328,921
Sewer lines	661,215	682,908
Water tanks	47,348	61,813
Equipment	129,556	145,100
Building	29,315	31,278
Transportation	4,399	10,999
Improvements	<u>19,833</u>	<u>23,233</u>
Total capital assets, being depreciated	<u>7,981,165</u>	<u>8,284,252</u>
Business-type activities capital assets, net	<u>\$ 8,137,333</u>	<u>\$ 8,440,420</u>

During the year ended December 31, 2019, the District acquired assets totaling \$40,469.

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-term and other debt

At the end of the current year, the Lyon County Water District had total debt of \$4,810,394. Long-term debt at December 31, 2019, was as follows:

	<u>2019</u>	<u>2018</u>
<u>Long-Term Debt</u>		
KY Rural Water	\$ 1,070,000	\$ 1,155,000
USDA Bond Series 2016	1,855,500	1,900,000
Kentucky Infrastructure Authority	1,876,035	1,959,089
Capital Lease	<u>8,859</u>	<u>34,774</u>
Total Long-Term Debt	<u>\$ 4,810,394</u>	<u>\$ 5,048,863</u>

Interest expense of \$113,454 was incurred during the year ended December 31, 2019.

Additional information on the District's long-term debt can be found in Notes 7 and 8 of this report.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Lyon County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Don Robertson, Chairman, Lyon County Water District, 5464 US 62 W, Kuttawa, Kentucky 42055.

Lyon County Water District
Statement of Net Position
December 31, 2019

<u>Assets</u>	<u>2019</u>
Current Assets	
Cash equivalents	\$ 333,869
Customer accounts receivable	105,558
Unbilled revenue	69,653
Inventory	25,390
Prepayments	16,616
Restricted assets	
Cash equivalents	<u>283,912</u>
Total current assets	<u>834,998</u>
Noncurrent Assets	
Capital assets, net of depreciation	<u>8,137,333</u>
Total noncurrent liabilities	<u>8,137,333</u>
Other Assets	
Deposits	<u>560</u>
Total other assets	<u>560</u>
Total Assets	<u>8,972,891</u>
<u>Deferred Outflows of Resources</u>	
Related to pensions and other postemployment benefits	<u>183,042</u>
Total deferred outflows of resources	<u>183,042</u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	53,996
Accrued interest on debt	38,135
Accrued liabilities	9,779
Customers' deposits	18,450
Long-term debt due in one year	<u>184,082</u>
Total current liabilities	<u>304,442</u>
Noncurrent Liabilities	
Compensated absences	6,476
Long-term debt due after one year	4,626,312
Net pension and other postemployment benefit liabilities	<u>641,913</u>
Total noncurrent liabilities	<u>5,274,701</u>
Total Liabilities	<u>5,579,143</u>
<u>Deferred Inflows of Resources</u>	
Related to debt	36,200
Related to pensions and other postemployment benefits	<u>79,325</u>
Total deferred inflows of resources	<u>115,525</u>
<u>Net Position</u>	
Net investment in capital assets	3,290,739
Restricted for	
Debt service	283,912
Customer deposits	18,450
Prepaid expenses	16,616
Unrestricted	<u>(148,452)</u>
Total Net Position	<u>\$ 3,461,265</u>

See accompanying notes to financial statements.

Lyon County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2019

	<u>2019</u>
<u>Operating Revenue</u>	
Water revenues	\$ 1,221,100
Total Operating Revenues	<u>1,221,100</u>
<u>Operating Expenses</u>	
Water expenses	1,002,378
Depreciation	340,377
Payroll and other taxes	14,186
Wastewater expenses	<u>16,521</u>
Total Operating Expenses	<u>1,373,462</u>
<u>Operating Income (Loss)</u>	<u>(152,362)</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	2,922
Gain on sale of assets	(3,179)
Interest on debt	<u>(113,454)</u>
Total Nonoperating Revenue (Expenses)	<u>(113,711)</u>
<u>Net Income Before Capital Contributions</u>	<u>(266,073)</u>
<u>Capital Contributions</u>	
Tap-on fees	<u>15,600</u>
Total Capital Contributions	<u>15,600</u>
<u>Change in Net Position</u>	(250,473)
<u>Net Position-Beginning of Year</u>	<u>3,711,738</u>
<u>Net Position-End of Year</u>	<u>\$ 3,461,265</u>

See accompanying notes to financial statements.

Lyon County Water District
Statement of Cash Flows
For the Year Ended December 31, 2019

	2019
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 1,224,120
Cash payments to suppliers for goods and services	(798,482)
Cash payments to employees for services	(163,260)
Net Cash Provided By Operating Activities	262,378
<u>Cash Flows From Capital and Related Financing Activities</u>	
Contributed capital	15,600
Interest paid on debt	(116,768)
Principal paid on capital debt	(198,469)
Acquisition of property, plant, and equipment	(40,469)
Net Cash Used by Capital and Related Financing Activities	(340,106)
<u>Cash Flows From Investing Activities</u>	
Income received on investments	2,922
Net Cash Used By Investing Activities	2,922
<u>Net Increase (Decrease) in Cash Equivalents</u>	(74,806)
<u>Cash Equivalents-Beginning of Year</u>	692,587
<u>Cash Equivalents-End of Year</u>	\$ 617,781
<u>Reconciliation of Operating Income to Net Cash Provided</u>	
<u>By Operating Activities</u>	
Operating Income (Loss)	\$ (152,362)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	340,377
Change in assets and liabilities	
Decrease (increase) in accounts receivable	2,120
Decrease (increase) in inventory	5,345
Decrease (increase) in prepayments	258
Decrease (increase) in deferred outflows of resources	(52,738)
Increase (decrease) in accounts payable	(13,888)
Increase (decrease) in customer deposits	900
Increase (decrease) in accrued liabilities	(459)
Increase (decrease) in deferred pension and OPEB liabilities	127,019
Increase (decrease) in deferred inflows of pensions	5,806
Net Cash Provided By Operating Activities	\$ 262,378
<u>Reconciliation of Total Cash</u>	
Current Assets - Cash	\$ 333,869
Restricted Assets - Cash	283,912
Total Cash	\$ 617,781
<u>Non-cash Investing, Capital and Related Financing Activities - None</u>	

See accompanying notes to financial statements.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Lyon County Water District, (the District), is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Kuttawa, Kentucky and primarily serves the Lyon County, Kentucky area.

The accounting and reporting policies of the District relating to the accompanying basic 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:

Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

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, liabilities, 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 and liabilities 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 assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

Reclassifications

Prior period financial statement amounts have been reclassified to conform to current period presentation. Operating income and net earnings for the prior period were not impacted by the reclassifications.

Sales of Water

Charges to customers for the sale of water are based on rates approved by the Kentucky Public Service Commission (PSC).

Budget

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, 2019, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments

Cash and cash equivalents are deposited with Branch Banking and Trust Company and 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 all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

Accounts Receivable

The direct write-off method was used for recording uncollectible accounts. No allowance for uncollectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Lyon County. Due to the large amount of small account balances, the District does not feel these are at risk for loss due to credit concentrations.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2019 are recorded as prepaid items.

Capital Assets

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Buildings	20 to 40 years
Equipment	5 to 10 years
Water and Sewer Lines	25 to 40 years

Unearned Revenue

The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

Inventory

Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

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 4 for information describing restricted assets.

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, 2019, 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.

Pensions and Other Postemployment Benefits

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

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

Net Position

In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows of Resources and Deferred 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 the consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in the category, deferred charges - pension, and deferred charges - other post-employment benefits (OPEB).

A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred pension contribution results from pension contributions subsequent to the measurement date of the pension plan. This amount is deferred and recognized as a component of the change in pension plan liability in the next measurement period. Pension related deferred components include difference between expected and actual experience; the difference between projected and actuarial earnings on pension plan investments results from actual investment earnings above or below actuarial projected earnings; changes in assumptions; and changes in proportion and differences between employer contributions and proportionate share of contributions. These pension related items are deferred and amortized over 3-5 years as a component of the pension expense.

The deferred related pension and OPEB outflows results from pension and OPEB contributions subsequent to the measurement date of the pension plan and OPEB and various changes resulting from actuarial pension and OPEB measurements. The pension and OPEB contribution amounts are deferred and recognized as a component of the change in pension and OPEB plan liabilities in the next measurement period. The various changes resulting from actuarial pension and OPEB measurements are deferred and amortized in future periods as a component of the pension and OPEB expense.

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 future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items reported in this category, inflows related to the District's pension and OPEB plans that qualify for reporting in this category - deferred pension and OPEB related inflows. The various changes resulting from actuarial pension and OPEB measurements are deferred and amortized in future periods as a component of the pension and OPEB expense.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

Recent Accounting Pronouncements

As of December 31, 2019, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 87

GASB Statement No. 87, *Leases*, was issued in June 2017. The provisions of this Statement are effective for periods beginning after June 15, 2021. This Statement will increase the usefulness of government financial statements by required reporting of certain lease liabilities that currently are not required. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 88

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued in April 2018. The provisions of this pronouncement are effective for periods beginning after June 15, 2019. This pronouncement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The District's management has not yet determined the effect this pronouncement will have on the financial statements.

GASB Statement No. 89

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, was issued in June 2018. The provisions of this pronouncement are effective for periods beginning after December 15, 2019. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

Subsequent Events

The District has evaluated subsequent events through June 30, 2020, the date which the financial statements were available to be issued.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

2. LEGAL COMPLIANCE

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2019.

Budgets

Excess of Expenditures Over Appropriations

The District has an excess of actual expenditures over budget for the year ended December 31, 2019 of \$185,262. This excess was due to under budgeted water and depreciation expenses.

3. DEPOSITS AND INVESTMENTS

A. Net Position

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	Investments	Total
Cash equivalents	\$ 333,869	\$ -	\$ 333,869
Restricted assets			
Cash equivalents	283,912	-	283,912
Total	\$ 617,781	\$ -	\$ 617,781

B. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions were \$617,781, and the bank balances were \$621,211. Of the bank balances, \$551,262 was covered by federal depository insurance. The remaining \$69,949 was covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

C. 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.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

4. **RESTRICTED NET POSITION**

Net Assets Restricted for Debt Retirement

	Depreciation Fund	Sinking Funds	KIA Loan Repayment	Total
Cash equivalents	\$ <u>156,422</u>	\$ <u>122,693</u>	\$ <u>4,797</u>	\$ <u>283,912</u>

Revenue Fund: All income and revenues derived from the operation of the system shall be deposited promptly and as received to the Lyon County Water Revenue Fund. The monies deposited into the Revenue Fund shall be expended only in the manner and order as follows:

1. Regions Sinking Fund
2. Depreciation Reserve Fund
3. Operation and Maintenance Fund

Regions Sinking Fund: The District holds cash deposits in the amount of \$68,856 in the Regions Trust Cash Sweep III (RTCS). RTCS is a bank deposit account offered through Regions Institutional Services. The RTCS does not directly invest in securities. It is a deposit account that is collateralized by government securities. Collateral may include:

- Interest bearing obligations of the U.S. Government
- Senior debt obligations of any U.S. Government Agency,
- And/or municipal securities with an underlying rating of A or better.

RTCS is FDIC Insured up to \$250,000. Deposit account amounts in excess of \$250,000 are secured 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. RTCS deposits are identified as "cash" on client statements; there are no market value fluctuations. The sinking fund was established for the purpose of paying the principal and interest on the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2013 C. The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. A separate sinking fund is to be established for the purpose of paying the principal and interest on the Waterworks Revenue Bonds Series 2016. The District is required to deposit \$845 per month until the account reaches \$101,400. The deposits are to be resumed any time the account falls below \$101,400.

Depreciation Reserve: The ordinances requires Lyon County Water District to make monthly contributions to this fund after observing the priority of deposits into the KIA Loan Fund and the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals, or replacements, and the cost of constructing additions, and improvements to the system. The District is to make \$510 monthly deposits until a required minimum balance of \$61,200 is met. The District is to make \$295 monthly deposits over the life of the loan. At December 31, 2019, the balance of the Depreciation Reserve Fund was \$156,422.

Operations and Maintenance Fund: Transfers shall be made monthly from the Revenue Fund to the Operations and Maintenance Fund so that the various operation and maintenance expenses of such system are met and a two (2) month operating reserve established and maintained. Any funds remaining in Operation and Maintenance Fund after meeting the expenses of operating such system shall be transferred to the Revenue Fund and disbursed in accordance with the above provisions until such time as the Sinking Fund and Depreciation Fund are current and the required balances established; and then excess funds may be invested in direct obligations of or obligations which are

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

fully guaranteed by the United States Government with such maturities so that moneys shall be available in the respective Funds for the purposes for which same are established.

The new Waterworks Revenue Bonds 2016 require the District to fund an account for short-lived assets by depositing a sum of \$750 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's water system. This short-lived assets reserve amount replaces any previous short-lived assets requirements previously set with any prior RUS loan.

5. CAPITAL ASSETS

A summary of proprietary fund property, plant, and equipment at December 31, 2019 for business-type activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 121,772	\$ -	\$ -	\$ 121,772
Construction in progress	34,396	-	-	34,396
Total capital assets, not being depreciated	<u>156,168</u>	<u>-</u>	<u>-</u>	<u>156,168</u>
Capital assets, being depreciated				
Distribution lines	11,270,365	21,476	-	11,291,841
Sewer lines	867,725	-	-	867,725
Water tanks	422,707	-	-	422,707
Machinery and equipment	308,873	18,993	(39,824)	288,042
Building	73,976	-	-	73,976
Transportation	87,129	-	-	87,129
Improvement	34,000	-	-	34,000
Total capital assets, being depreciated	<u>13,064,775</u>	<u>40,469</u>	<u>(39,824)</u>	<u>13,065,420</u>
Less accumulated depreciation for				
Distribution lines	(3,941,444)	(260,899)	-	(4,202,343)
Sewer lines	(184,817)	(21,693)	-	(206,510)
Water tanks	(360,894)	(14,464)	-	(375,358)
Machinery and equipment	(163,773)	(31,358)	36,645	(158,486)
Building	(42,698)	(1,963)	-	(44,661)
Transportation	(76,130)	(6,600)	-	(82,730)
Improvement	(10,767)	(3,400)	-	(14,167)
Total accumulated depreciation	<u>(4,780,523)</u>	<u>(340,377)</u>	<u>36,645</u>	<u>(5,084,255)</u>
Total capital assets, being depreciated, net	<u>8,284,252</u>			<u>7,981,165</u>
Business-type activities capital assets, net	<u>\$ 8,440,420</u>			<u>\$ 8,137,333</u>

Depreciation charged to income was \$340,377.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

6. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

A summary of change in deferred outflows/inflows of resources is as follows:

	<u>Balance</u> <u>12/31/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2019</u>
Pensions				
Deferred outflows of resources:				
<i>Deferred pension contributions</i>	\$ 14,961	\$ 15,721	\$ (14,961)	\$ 15,721
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	15,028	21,055	-	36,083
<i>Differences between expected and actual experience</i>	13,004	223	-	13,227
<i>Change in assumptions</i>	38,962	13,471	-	52,433
<i>Difference between projected and actuarial earnings</i>	<u>18,539</u>	<u>-</u>	<u>(8,594)</u>	<u>9,945</u>
<i>Pension related deferred outflows</i>	<u>\$ 100,494</u>	<u>\$ 50,470</u>	<u>\$ (23,555)</u>	<u>\$ 127,409</u>
Deferred inflows of resources:				
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	\$ 15,485	\$ -	\$ (6,295)	\$ 9,190
<i>Differences between expected and actual experience</i>	5,836	-	(3,647)	2,189
<i>Difference between projected and actuarial earnings</i>	<u>23,319</u>	<u>-</u>	<u>(5,023)</u>	<u>18,296</u>
<i>Pension related deferred inflows</i>	<u>\$ 44,640</u>	<u>\$ -</u>	<u>\$ (14,965)</u>	<u>\$ 29,675</u>
Other Post-employment Benefits (OPEB)				
Deferred outflows of resources:				
<i>Deferred OPEB contributions</i>	\$ 6,599	\$ 3,877	\$ (6,599)	\$ 3,877
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	-	11,630	-	11,630
<i>Subsidy</i>	-	2,659	-	2,659
<i>Difference between projected and actuarial earnings</i>	-	816	-	816
<i>Change in assumptions</i>	<u>23,211</u>	<u>-</u>	<u>13,440</u>	<u>36,651</u>
<i>OPEB related deferred outflows</i>	<u>\$ 29,810</u>	<u>\$ 18,982</u>	<u>\$ 6,841</u>	<u>\$ 55,633</u>
Deferred inflows of resources:				
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	\$ 7,061	\$ -	\$ (1,344)	\$ 5,717
<i>Differences between expected and actual experience</i>	13,544	23,827	-	37,371
<i>Change in assumptions</i>	269	-	(24)	245
<i>Difference between projected and actuarial earnings</i>	<u>8,005</u>	<u>-</u>	<u>(1,688)</u>	<u>6,317</u>
<i>OPEB related deferred inflows</i>	<u>\$ 28,879</u>	<u>\$ 23,827</u>	<u>\$ (3,056)</u>	<u>\$ 49,650</u>

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

7. CAPITAL LEASES

In fiscal year 2018, the District entered into a capitalized lease with Branch Banking and Trust Company for a mini-excavator and trailer. This lease agreement met the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Amortization of the mini-excavator and trailer under capital assets is included as depreciation expense.

Capital assets consisting of a Kubota U35 Mini Excavator, Hydraulic Angle Blade, and 18' Brook Brothers Trailer have been capitalized in the amount of \$50,155. This amount represents the present value of the minimum lease payments at the time of acquisition. The accumulated depreciation as of December 31, 2019, for this equipment was \$16,718, leaving a current book value of \$33,437. A corresponding liability is recorded in the financial statements. Principal payments in fiscal year 2019 totaled \$25,915.

Description	Interest Rate	Maturity Date	Balance 12/31/2019	Due in One Year
Capital Lease - BBT Governmental Finance	3.81%	2020	\$ 8,859	\$ 8,859
Total			<u>8,859</u>	<u>8,859</u>

8. DEBT OBLIGATIONS

Revenue Bonds Payable

Description	Interest Rate	Maturity Date	Balance 12/31/2019	Due in One Year
Waterworks Revenue Bonds				
Regions - Series 2013 C	3.5%	2040	\$ 1,070,000	\$ 45,000
Kentucky Infrastructure Authority	1.875%	2046	1,876,035	84,723
USDA - Series 2016	2.0%	2046	<u>1,855,500</u>	<u>45,500</u>
Total			<u>\$ 4,801,535</u>	<u>\$ 175,223</u>

Principal and interest requirements of the revenue bonds payable as of December 31, 2019 are:

Year Ending December 31,	Principal	Premium Amortization	Total	Interest & Fees
2020	\$ 175,223	\$ 1,724	\$ 61,349	\$ 115,630
2021	178,426	1,724	76,773	110,913
2022	186,663	1,724	73,894	106,020
2023	189,935	1,724	106,965	100,829
2024	193,243	1,724	101,993	95,443
2025-2029	1,063,129	8,619	292,363	398,469
2030-2034	1,208,594	8,619	293,109	257,789
2035-2039	951,822	8,619	141,994	112,277
2040-2044	462,500	1,724	59,219	39,467
2045-2046	<u>192,000</u>	-	<u>13,834</u>	<u>3,188</u>
Total	<u>\$ 4,801,535</u>	<u>\$ 36,201</u>	<u>\$ 1,221,493</u>	<u>\$ 1,340,025</u>

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

Series 2013 C

In an ordinance of the Board of Commissioners, adopted on October 3, 1995, the District authorized and thereafter issued its \$996,000 "Water Revenue Bonds, Series 1995" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999, shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

In an ordinance of the Board of Commissioners, adopted on September 13, 2002, the District authorized and thereafter issued its \$594,000 "Water Revenue Bonds, Series 2002" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999, shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

Both bonds were refinanced for \$1,305,000 under Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds Series 2013 C as of March 27, 2013.

The Series 2013 C bond, referred to above, mature as to principal in installments on January 1, in each of the years and shall bear interest from their issue dates until payment of principal. Interest is payable semiannually on June 1 and January 1, of each year as established by the ordinance.

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Note 4.

If there is any default in the payment of the principal or interest on any of the outstanding bonds and suit is filed by a holder of said bond the court-having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution and the provisions of the applicable laws of Kentucky.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable. The District must maintain adequate public liability insurance including fire, windstorm, fidelity bonds, and the hazards covered by a standard extended coverage policy. The bond covenant also requires an audit of the books of record and account pertinent to the system of the District within 60 days of year-end.

Series 2016

On December 31, 2016, the District issued \$1,900,000 Waterworks Revenue Bonds, Series 2016, for the purpose of extensions, additions, and improvements to the existing waterworks system. The bonds have an interest rate of 1.875% and will mature on January 1, 2046. The bond issue calls for semiannual interest payments and annual principal payments. The bonds require the District to establish an additional sinking fund to pay the principal and interest on the bonds.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

Kentucky Infrastructure Authority

The District entered into an agreement with Kentucky Infrastructure Authority to finance a system upgrade totaling \$2,000,000. The bonds have an interest rate of 2.0% and will mature on June 1, 2038. The bond issue calls for semiannual interest payments and annual principal payments. The bonds require the District to establish a replacement reserve account. The annual replacement cost is \$5,000 and should be added to the replacement account each December 1 until the balance reaches \$50,000 and maintained for the life of the loan.

Changes in Business-Type Activities Debt

A summary of changes in the business-type activities debt for the year ended December 31, 2019 follows:

	<u>Balance</u> <u>12/31/2018</u>	<u>Debt</u> <u>Proceeds</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12/31/2019</u>	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities</u>					
Capital Lease - BBT Gov Finance	\$ 34,774	\$ -	\$ 25,915	\$ 8,859	\$ 8,859
Revenue Bonds Payable	<u>4,974,089</u>	<u>-</u>	<u>172,554</u>	<u>4,801,535</u>	<u>175,223</u>
Total Business-Type Activities	<u>\$5,008,863</u>	<u>\$ -</u>	<u>\$ 198,469</u>	<u>\$4,810,394</u>	<u>\$ 184,082</u>

Interest expense for the year was \$113,454.

9. EMPLOYEES' RETIREMENT PLAN

The District provides retirement benefits to its employees through a multi-employer public employee retirement fund administered by the Kentucky County Employees Retirement District (CERS). Information regarding this plan is as follows:

County Employees' Retirement System

Plan description. The District is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of Kentucky Revised Statute ("KRS") Sections 61.645, the Board of Trustees administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <https://kyret.ky.gov>.

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

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

Nonhazardous members

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	Minimum 5 years of service and 55 years old 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
	Reduced retirement	Age of 57 or older and sum of service years plus age equal 87 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
	Reduced retirement	Age of 57 or older and sum of service years plus age equal 87 Not available

Plan Funding. 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 contribute at the rate determined by the CERS Board to be necessary for the actuarial soundness of the District, as required by KRS 61.565 and 61.752. The District's required contribution rate for non-hazardous employees was 16.22% for the period January 1, 2019 to June 30, 2019; and 19.30% for the period July 1, 2019 to December 31, 2019.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At December 31, 2019, the District reported a liability of \$518,054 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's share of contributions to CERS relative to the total contributions of all participating employers, actuarially determined. At June 30, 2019, the District's proportion was .007366%.

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expenses of \$105,467 for the year ended December 31, 2019. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ 13,227	\$ 2,189
Net differences between projected and actual investment earnings	9,945	18,296
Change of assumption	52,433	-
Changes in proportion and differences between employer contributions and share of contributions	36,083	9,190
Contributions subsequent to the measurement date	<u>15,721</u>	<u>-</u>
Totals	<u>\$ 127,409</u>	<u>\$ 29,675</u>

Deferred Outflows of Resources. The \$15,721 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, 2020. 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>	
December 31, 2020	\$ 47,129
December 31, 2021	23,644
December 31, 2022	10,647
December 31, 2023	<u>593</u>
Total	<u>\$ 82,013</u>

Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2018. The actuarial assumptions are:

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25% for CERS 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 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.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below. The current long-term inflation assumption is 2.30% per annum.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Growth	62.50%	
US Equity	18.75%	4.30%
Non US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

Discount Rate. Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is protected to be sufficient to pay benefits) and (2) tax exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

A single discount rate of 6.25% was used for both the non-hazardous and hazardous system to measure the total pension liability for the fiscal year ending June 30, 2019. This single discount rate was based on the expected rate of return on pension plan investments for each system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each system. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018).

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

Lyon County Water District
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	1% Decrease	Current Discount Rate 6.25%	1% Increase
The District's proportionate share of the net pension liability	<u>5.25%</u>	<u>Rate 6.25%</u>	<u>7.25%</u>
	\$ 647,939	\$ 518,054	\$ 409,796

Payables to the pension plan. At December 31, 2019, the financial statements include \$651 in contractually required employee contributions primarily for the month ended December 31, 2019. The obligation was paid 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 Postemployment Benefit Plan (OPEB)

CERS Medical Insurance Plan

Plan description. The District contributes to the Kentucky Retirement Systems Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Kentucky Retirement System (KRS). The Insurance Fund was established to provide hospital and medical insurance for members for receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS).

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payments of required premiums to purchase hospital and medical insurance, based on years of service, for retirees and certain eligible beneficiaries. The authority to establish and amend benefit provisions rests with the Kentucky General Assembly. KRS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Contributions. Per Kentucky Revised Statutes 78.545 (33), contribution requirements are established and may be amended by the KRS Board. The District's required contribution rate for non-hazardous employees was 5.26% for the period January 1, 2019 to June 30, 2019; and 4.76% for the period July 1, 2019 to December 31, 2019.

OPEB Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources. At December 31, 2019, the District reported a net OPEB liability of \$123,859 for its proportionate share of the CERS net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019. At June 30, 2019, the District's proportion was .007364% for nonhazardous classified employees.

For the year ended December 31, 2019, the District recognized OPEB expense of \$11,789. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected & actual earnings on pension plan investments	\$ -	\$ 37,371
Changes of assumptions	36,651	245
Net difference between projected and actual earnings on plan investments	816	6,317
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,630	5,717
Contributions subsequent to the measurement date, including implicit subsidy	<u>6,536</u>	<u>-</u>
Totals	<u>\$ 55,633</u>	<u>\$ 49,650</u>

The \$6,536 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and the December 31, 2019 implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020.

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

Fiscal Year Ending June 30,	
2020	\$ (59)
2021	(59)
2022	1,690
2023	(1,662)
2024	(630)
Thereafter	<u>167</u>
	<u>\$ (553)</u>

Actuarial Assumptions The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll Growth Rate	2.0% CERS Non-hazardous
Salary Increase	3.05% - 10.30%, varies by service
Investment Rate of Return	6.25%

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 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.

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Growth	62.50%	
US Equity	18.75%	4.30%
Non US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

Discount Rate. The projection of cash flows used to determine the discount rate of 5.68% for CERS Nonhazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of present, 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 (4.68%) or one percentage point higher (6.68%) than the current rate (5.68%):

	1% Decrease 4.68%	Current Discount Rate 5.68%	1% Increase 6.68%
The District's proportionate share of the net OPEB liability	\$ 165,920	\$ 123,859	\$ 89,204

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate. The following presents the Board'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 Service's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The District's proportionate share of the net OPEB liability	\$ 92,115	\$ 123,859	\$ 162,353

Lyon County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2019

10. COMMITMENTS

Contracts for Water Supply

The District entered into contracts with the City of Eddyville, the City of Kuttawa, the City of Princeton, and the Crittenden-Livingston Water District which states that the Cities and Water District will provide water to the District.

11. CONTINGENCIES

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2019, there have been no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from grant funds are recognized and are recorded as revenue.

12. 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 2018 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

13. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Lyon County, Kentucky. For the year ended December 31, 2019, the revenues from these sources totaled \$1,221,100. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

14. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employee are entitled to vacation pay according to the following schedule:

1 to 5 years	12 days
6+ years	15 days

Employees are allowed to carryforward 80 hours of vacation time. Upon termination of employment, an employee will be paid for all unused vacation leave. The liability for unused vacation time at December 31, 2019 was \$2,925.

The District's policy on sick pay states that employees will be granted 1/2 sick day per month. Employees are allowed to carryforward 240 hours of sick time. Sick leave is forfeited upon termination of employment. The liability for unused sick time at December 31, 2019 was \$3,551.

15. 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

Lyon County Water District
Statement of Revenues, Expenses, and
Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2019

	2019			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
<u>Revenues</u>	Original	Final		
Water revenues	\$ 1,319,000	\$ 1,319,000	\$ 1,221,100	\$ (97,900)
Other	850	850	-	(850)
Total Operating Revenues	1,319,850	1,319,850	1,221,100	(98,750)
<u>Operating Expenses</u>				
Water expenses	924,700	924,700	1,002,378	(77,678)
Depreciation	234,000	234,000	340,377	(106,377)
Wastewater expenses	15,000	15,000	16,521	(1,521)
Payroll and other taxes	14,500	14,500	14,186	314
Total Operating Expenses	1,188,200	1,188,200	1,373,462	(185,262)
<u>Operating Income (Loss)</u>	131,650	131,650	(152,362)	(284,012)
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	3,500	3,500	2,922	(578)
Proceeds from sale of assets	-	-	(3,179)	(3,179)
Interest on debt	(125,000)	(125,000)	(113,454)	11,546
Total Nonoperating Revenue (Expenses)	(121,500)	(121,500)	(113,711)	7,789
<u>Net Income before Capital Contributions</u>	10,150	10,150	(266,073)	(276,223)
<u>Capital Contributions</u>				
Tap-on fees	3,500	3,500	15,600	12,100
Total Capital Contributions	3,500	3,500	15,600	12,100
<u>Change in Net Position</u>	\$ 13,650	\$ 13,650	(250,473)	\$ (264,123)
<u>Net Position-Beginning of Year</u>			3,711,738	
<u>Net Position-End of Year</u>			\$ 3,461,265	

Lyon County Water District
Schedule of the Proportionate Share
of the Net Pension Liability
For the Year Ended December 31, 2019
County Employee Retirement System
Last 10 Fiscal Years (1)

Year Ended June 30	District's proportion of the net pension liability	District's proportionate share of the net pension liability (asset)	District's covered employee payroll	District's share of the net pension liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
<u>CERS Nonhazardous</u>					
2019	0.007366%	\$518,054	\$175,603	295.01%	50.45%
2018	0.006546%	\$398,671	\$181,770	219.33%	53.54%
2017	0.006997%	\$409,556	\$158,492	258.41%	53.30%
2016	0.00639%	\$314,713	\$175,888	178.92%	55.50%
2015	0.00551%	\$237,005	\$139,779	169.55%	59.97%
2014	0.005572%	\$180,777	\$150,398	169.55%	66.80%

Note to Schedule: The amounts presented were determined as of the measurement date June 30 of the prior year.

(1) Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Lyon County Water District
Schedule of Pension Contributions
For the Year Ended December 31, 2019
County Employee Retirement System
Last 10 Fiscal Years (1)

<u>Year Ended</u> <u>June 30</u>	<u>Contractually required</u> <u>contribution</u>	<u>Contributions relative</u> <u>to contractually</u> <u>required contribution</u>	<u>Contribution</u> <u>deficiency (excess)</u>	<u>District's covered</u> <u>employee payroll</u>	<u>Contributions as a</u> <u>percentage of covered</u> <u>employee payroll</u>
<u>CERS Nonhazardous</u>					
2019	\$31,073	\$31,073	\$ -	\$175,603	16.22% / 19.30%
2018	\$27,925	\$27,925	\$ -	\$181,770	14.48% / 16.22%
2017	\$28,030	\$28,030	\$ -	\$158,492	13.95% / 14.48%
2016	\$28,511	\$28,511	\$ -	\$175,888	12.42% / 13.95%
2015	\$22,637	\$22,637	\$ -	\$139,779	12.75% / 12.42%
2014	\$22,229	\$22,229	\$ -	\$150,398	13.74% / 12.75%

Note to Schedule: The amounts presented were determined as of the measurement date June 30 of the prior year.

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Notes to Required Supplementary Information
For the Year Ended June 30, 2019

Changes of Benefit Term:

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

Change of assumptions:

The assumed investment rate of return was 6.25%

The assumed rate of inflation was 2.30%

Payroll Growth assumption was 3.30% - 10.30%, varies by service.

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". The Total Pension Liability as of June 30, 2019, was determined using these updated assumptions.

The mortality table used was updated to RP-2000 Combined Mortality Table projected with Scale bb to 2013.

Lyon County Water District
Schedule of the Proportionate Share
of the Net OPEB Liability
For the Year Ended December 31, 2019
County Employee Retirement System
Last 10 Fiscal Years (1)

<u>Year Ended</u> <u>June 30</u>	<u>District's proportion of</u> <u>the net OPEB liability</u>	<u>District's proportionate</u> <u>share of the net OPEB</u> <u>liability (asset)</u>	<u>District's covered</u> <u>employee payroll</u>	<u>District's share of the</u> <u>net OPEB liability</u> <u>(asset) as a percentage</u> <u>of its covered</u> <u>employee payroll</u>	<u>Plan fiduciary net</u> <u>position as a</u> <u>percentage of the total</u> <u>OPEB liability</u>
<u>CERS Nonhazardous</u>					
2019	0.007364%	\$123,859	\$175,603	70.53%	60.44%
2018	0.006546%	\$116,223	\$181,770	63.94%	57.62%
2017	0.006997%	\$140,664	\$158,492	88.75%	52.40%

Note to Schedule: The amounts presented were determined as of the measurement date June 30 of the prior year.

(1) Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Lyon County Water District
Schedule of OPEB Contributions
For the Year Ended December 31, 2019
County Employee Retirement System
Last 10 Fiscal Years (1)

<u>Year Ended June 30</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<u>CERS Nonhazardous</u>					
2019	\$8,748	\$8,748	\$ -	\$ 175,603	5.26% / 4.76%
2018	\$9,046	\$9,046	\$ -	\$181,770	4.70% / 5.26%
2017	\$9,311	\$9,311	\$ -	\$158,492	4.73% / 4.70%

Note to Schedule: The amounts presented were determined as of the measurement date June 30 of the prior year.

(1) Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Changes of Benefit Term:

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

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The mortality table used was updated to RP-2000 Combined Mortality Table projected with Scale bb to 2013.

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

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

To the Board of Commissioners
Lyon County Water District
Kuttawa, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lyon County Water District, as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the Lyon County Water District's basic financial statements, and have issued our report thereon dated June 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lyon 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 the 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 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (2019-1).

Compliance and Other Matters

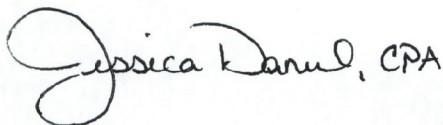
As part of obtaining reasonable assurance about whether the Lyon County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 that are required to be reported under *Government Auditing Standards*.

Lyon County Water District's Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Jessica Daniel, CPA". The signature is written in a cursive style with a large, looped initial "J".

Eddyville, Kentucky
June 30, 2020

Lyon County Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2019

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 agree with the finding and have put in place certain compensating controls to help alleviate exposure. A third party accounting firm has been contracted to provide office staff, bookkeeping, payroll, and preparing monthly reports for Board review.