BIG SANDY WATER DISTRICT

Catlettsburg, Kentucky

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

for the year ended December 31, 2020

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2020, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Big Sandy Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

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 opinion.

Opinion

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 Big Sandy Water District, as of December 31, 2020, 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
Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 and historical context. Our opinion on the basic financial statements is not affected by this missing information.

The Schedule of Employer's Proportionate Share of Net Pension Liability, the Schedule of Employer's Contributions – Net Pension Liability, Schedule of Employer's Proportionate Share of Net OPEB Liability and the Schedule of Employer's Contributions – Net OPEB Liability are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Big Sandy Water District's basic financial statements. The Comparative Statement of Revenues and Expenses and the Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The Comparative Statement of Revenues and Expenses and Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Comparative Statement of Revenues and Expenses and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated August 03, 2021, on our consideration of the Big Sandy Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Big Sandy Water District's internal control over financial reporting and compliance.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

August 03, 2021
This report contains 33 pages.

Big Sandy Water District
Statement of Net Position
Proprietary Fund
December 31, 2020

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	$ 335,890
Cash and cash equivalents - restricted	340,300
Accounts receivable - net of allowance for doubtful accounts	347,542
Inventory	195,355
Prepaid expenses	11,819
Total Current Assets	1,230,906
Noncurrent Assets	
Capital assets:	
Land	99,529
Plant, equipment and lines	20,341,919
Construction in process	2,631,922
Less accumulated depreciation	(9,854,106)
Total Noncurrent Assets	13,219,264
Deferred Outflows of Resources	421,729
Total Assets and Deferred Outflows of Resources	$ 14,871,899
LIABILITIES	
Current Liabilities	
Accrued expenses	$ 106,347
Accrued taxes	31,072
Accrued interest	72,845
Bonds/notes payable	239,511
Customer deposits payable	60,858
Total Current Liabilities	510,633
Noncurrent Liabilities	
Bonds/notes payable	5,072,836
Net pension liability	916,095
Net OPEB liability	288,135
Total Noncurrent Liabilities	6,277,066
Deferred Inflows of Resources	147,337
Total Liabilities and Deferred Inflows of Resources	6,935,036
NET POSITION	
Net investment in capital assets	7,906,917
Restricted	279,442
Unrestricted	(249,496)
Total Net Position	$ 7,936,863

The accompanying notes to the basic financial statements are an integral part of these statements.

Big Sandy Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended December 31, 2020

Revenues	
User fees	$ 2,655,072
Other water revenue	29,322
Other revenue	4,936
Total Revenues	2,689,330
Expenses	
Wages	459,241
Commissioners expense	375
Taxes	42,716
Employee benefits	241,808
Purchased water	1,105,518
Purchased power	94,226
Materials & supplies	305,855
Contractual services	180,792
Transportation expenses	36,425
Equipment expense	11,048
Insurance	27,505
Postage	17,205
Other expense	14,464
Telephone	9,040
Advertising	332
Depreciation	475,021
Total Operating Expenses	3,021,571
Operating Income (Loss)	(332,241)
Nonoperating Revenues (Expenses)	
Tap fees	49,280
Federal grants	653,683
Miscellaneous income - nonoperating	13,486
Interest expense	(90,649)
Interest income	751
Net Nonoperating Revenues (Expenses)	626,551
Change in Net Position	294,310
Total Net Position - beginning	7,679,208
Prior period adjustment	(36,655)
Total Net Position - ending	$ 7,936,863

The accompanying notes to the basic financial statements are an integral part of these statements.

Big Sandy Water District
Statement of Cash Flows
Proprietary Fund
For the year ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	$ 2,599,347
Cash paid to employees	(459,241)
Cash paid for general and administrative expenses	(2,233,484)
Net Cash provided / (used) by operating activities	(93,378)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	1,758
Customer deposits	2,593
Net Cash provided / (used) by investing activities	4,351
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Tap fees	49,280
Purchase of capital assets	(1,664,460)
Miscellaneous income	13,486
Bond proceeds	2,065,000
Bond/note payments - principal	(2,365,254)
Bond/note payments - interest	(83,908)
Capital grant	653,683
Net cash provided / (used) in capital and financing activities	(1,332,173)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,421,200)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,097,390
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 676,190
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Change in Net Position	$ (332,241)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:	
depreciation	475,021
(increase) / decrease in accounts receivable	(89,983)
increase / (decrease) in pension/OPEB expense due to GASB 68/75	61,890
(increase) / decrease in inventory	(107,737)
increase / (decrease) in accounts payable	(100,328)
Net cash provided / (used) by operating activities	$ (93,378)

The accompanying notes to the basic financial statements are an integral part of these statements.

Note 1 - Summary of Significant Accounting Policies

The Big Sandy Water District is a water utility which services areas of Boyd, Carter, Johnson and Lawrence Counties. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1981. The District is subject to the regulatory District of the Kentucky Public Service Commission pursuant to KRS 278. 040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Big Sandy Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund until it reaches the fully funded level of $233,400. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside $115,779 into this fund at December 31, 2020. The required balance at December 31, 2020 is $108,200.

Bond and Interest Sinking Fund (USDA) - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2020 was $174,886. The District had set aside $267.

Bond and Interest Sinking Fund (KRWFC) - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2020 was $61,566. The District had set aside $91,340.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. 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 associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Enterprise Funds

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

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are recorded at lower of cost or market valued on the FIFO method.

Cash

At December 31, 2020, the carrying amount of the District's deposits was $676,190 and the bank balance was $683,703. Of the bank balance $363,461 was covered by federal deposit insurance, $95,988 was collateralized with securities held by the pledging financial institution's trust department and $224,255 was invested in US Government securities. The District considers all investments with a maturity of three months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents.

Capital assets
Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

Class	Life
Lines and tanks	50 years
Hydrants	30 years
Meters	20 years
Equipment	10 years
Vehicles	5 years

The District's capitalization policy is as follows: expenditures costing more than $5,000 with an estimated useful life greater than one year are capitalized; all others are expensed.

Net Position
Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

Investments
Investments, if any, are carried at cost which is the lower of cost or fair market value.

Accounts Receivable
The receivable reflected in the statements in the amount of $347,542 is net of allowance for uncollectible in the amount of $10,747.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in Unites States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2020, eight separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A
Lender – Rural Development
Original amount of loan - $712,500
Balance of loan - $-0-
Rate – 4.5%

Note B
Lender – USDA
Original amount of loan - $495,000
Balance of loan - $-0-
Rate – 4.5%

Note C
Lender – USDA
Original amount of loan - $527,000
Balance of loan - $-0-
Rate – 2.75%

Note D
Lender – USDA
Original amount of loan - $1,050,000
Balance of loan - $969,000

Rate – 2.75%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	$ 17,500	$ 26,407	$ 43,907
2022	18,000	25,919	43,919
2023	18,500	25,417	43,917
2024	19,000	24,901	43,901
2025	19,500	24,372	43,872
2026-2030	106,000	113,410	219,410
2031-2035	121,500	97,769	219,269
2036-2040	139,500	79,853	219,353
2041-2045	159,500	59,338	218,838
2046-2050	182,500	35,853	218,353
2051-2054	167,500	9,481	176,981
Total	$ 969,000	$ 522,720	$ 1,491,720

Note E
Lender – USDA
Original amount of loan - $115,000
Balance of loan - $107,500
Rate – 3.25%
Principal due – January 1
Interest due January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	$ 1,500	$ 3,469	$ 4,969
2022	1,500	3,421	4,921
2023	1,500	3,372	4,872
2024	2,000	3,315	5,315
2025	2,000	3,250	5,250
2026-2030	10,000	15,275	25,275
2031-2035	12,500	13,447	25,947
2036-2040	15,000	11,213	26,213
2041-2045	18,000	8,564	26,564
2046-2050	21,500	5,371	26,871
2051-2054	22,000	1,528	23,528
Total	$ 107,500	$ 72,225	$ 179,725

Note F
Lender – USDA
Original amount of loan - $1,670,000
Balance of loan - $1,670,000
Rate – 1.50%
The bonds were sold at a premium of $84,203, which is being amortized over the term of the bond. The unamortized bond premium is recorded as a noncurrent liability. The premium amortization which is a decrease to interest expense was $5,263 for 2020. The unamortized bond premium at December 31, 2020 was $63,151.
Principal due – January 1
Interest due – January 1 and July 1

Maturities			
	Principal	Interest	Total Payment
2021	$ 21,000	$ 24,893	$ 45,893
2022	22,000	24,570	46,570
2023	22,000	24,240	46,240
2024	23,000	23,903	46,903
2025	24,000	23,550	47,550
2026-2030	131,000	112,058	243,058
2031-2035	155,000	101,363	256,363
2036-2040	180,000	88,800	268,800
2041-2045	212,000	74,145	286,145
2046-2050	249,000	56,888	305,888
2051-2055	291,000	36,683	327,683
2056-2060	340,000	13,035	353,035
Total	$ 1,670,000	$ 604,128	$ 2,274,128

Note G
Lender – USDA
Original amount of loan - $395,000
Balance of loan - $395,000
Rate – 1.50%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	$ 5,500	$ 5,884	$ 11,384
2022	5,500	5,801	11,301
2023	6,000	5,715	11,715
2024	6,000	5,625	11,625
2025	6,000	5,535	11,535
2026-2030	33,500	26,216	59,716
2031-2035	38,500	23,516	62,016
2036-2040	44,500	20,419	64,919
2041-2045	50,500	16,856	67,356
2046-2050	57,500	12,814	70,314
2051-2055	66,000	8,190	74,190
2056-2060	75,500	2,891	78,391
Total	$ 395,000	$ 139,462	$ 534,462

Note H
Lender – Kubota Credit Corporation
Original amount of loan - $59,970
Balance of loan - $3,748
Rate –0%
Principal- monthly payments of $1,249

Note I
Lender – KRWFC
Original amount of loan - $931,000
Balance of loan - $0
Rate – 4.30%
Principal & interest due – February 1, 2020

Note J
Lender – KRWFC
Original amount of loan - $910,000
Balance of loan - $395,000
Rate - 4.300%

Principal & interest due – February 1, 2020

	Maturities		
	Principal	Interest	Total Payment
2021	$ 75,000	$ 14,373	$ 89,373
2022	70,000	11,255	81,255
2023	60,000	8,310	68,310
2024	25,000	6,270	31,270
2025	30,000	5,025	35,025
2026-2029	135,000	9,450	144,450
Total	$ 395,000	$ 54,683	$ 449,683

Note K
Lender – KRWFC
Original amount of loan - $1,730,000
Balance of loan - $1,730,000
Rate – 5.20%

	Maturities		
	Principal	Interest	Total Payment
2021	$ 110,000	$ 68,085	$ 178,085
2022	120,000	62,105	182,105
2023	125,000	55,735	180,735
2024	135,000	48,975	183,975
2025	140,000	41,825	181,825
2026-2030	585,000	112,256	697,256
2031-2035	390,000	38,905	428,905
2036-2040	125,000	7,216	132,216
Total	$ 1,730,000	$ 435,102	$ 2,165,102

	Outstanding 1/1/2020	Issued	Retired	Outstanding 12/31/2020	Due Within One Year
Bonds Payable					
USDA 91-07	$ 712,500	$ -	$ 712,500	$ -	$ -
USDA 91-10	338,000		338,000	-	-
USDA 91-11	403,000		403,000	-	-
USDA 91-16	986,000		17,000	969,000	17,500
USDA 91-18	109,000		1,500	107,500	1,500
USDA 91-20	-	1,670,000		1,670,000	21,000
USDA 91-22	-	395,000		395,000	5,500
Kentucky Rural Water 2007	463,000		463,000	-	-
Kentucky Rural Water 2013	470,000		75,000	395,000	75,000
Kentucky Rural Water 2019	2,065,000		2,065,000	-	-
Kentucky Rural Water 2020	-	1,730,000		1,730,000	110,000
Bond Premium	47,362		5,263	42,099	5,263
Notes Payable					
Kubota	18,741	-	14,993	3,748	3,748
Total bonds payable	5,593,862	3,795,000	4,080,263	5,308,599	235,763
Total notes payable	18,741	-	14,993	3,748	3,748
Total bonds/notes payable	$ 5,612,603	$ 3,795,000	$ 4,095,256	$ 5,312,347	$ 239,511

Note 3 - Leave Policies
The District's employees are covered by leave policies as follow:

a) sick leave – one day per month to a maximum accumulation of sixty days;
b) annual leave – five days per annum with 1-2 years employment; ten days per annum with 3-9 years employment; fifteen days per annum after 10 years employment. One week of annual leave may be carried forward to the next year, but must be taken by March 31st of that year. Up on the retirement, termination of or medical retirement of an employee the District shall continue to employ and pay the employee for any accrued earned vacation days. The employee termination date shall be the last day of earned vacation paid.

Note 4 - Changes in Capital assets

The following is a summary of changes in capital assets for the year:

	Balance 12/31/2019	Additions/ Transfers	Deletions	Balance 12/31/2020
Land, non-depreciable	$ 99,529	$ -	$ -	$ 99,529
Construction in process, non-depreciable	968,676	1,663,246	-	2,631,922
Structures & improvements	121,531	-	-	121,531
Pumping equipment	310,808	-	-	310,808
Distribution reservoir & standpipe	1,223,302	-	-	1,223,302
Transmission & distribution mains	11,311,096	-	-	11,311,096
Services	5,101,924	-	-	5,101,924
Meters & meter installation	1,218,844	-	-	1,218,844
Hydrants	227,402	-	-	227,402
Other plant & misc. equipment	14,583	-	-	14,583
Office furniture & equipment	125,553	1,214	-	126,767
Transportation equipment	235,288	-	-	235,288
Tools, shop & garage	46,121	-	-	46,121
Power operated equipment	207,409	-	-	207,409
Communication equipment	6,014	-	-	6,014
Miscellaneous equipment	11,484	-	-	11,484
Other tangible plant	154,543	-	-	154,543
Utility plant acquisition adjustment	24,805	-	-	24,805
Total capital assets, gross	21,408,909	1,664,460	-	23,073,370
Accumulated depreciation	9,379,085	475,021	-	9,854,106
Capital assets, net of accumulated depreciation	$ 12,029,825	$ -	$ -	$ 13,219,264

Note 5 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account.

Note 6 - Restricted Cash

Restricted cash is composed of the following:

Depreciation reserve fund	$ 115,779
Debt reserve (USDA)	267
Debt reserve Regions (KRWFC)	224,254
	$ 340,300

Note 7 - Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2020. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Questioned Costs” section of this report.

Note 8 - 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; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 9 - Investments

The District's investment policy is governed by the Kentucky Statutes. These requirements authorize the District to invest in obligations backed by full faith and credit of the United States and obligations of any corporation of the United States government. The policy requires that amounts on deposit with financial institutions be collateralized at a rate of 100% of amounts in excess of deposit insurance coverage.

Note 10 – Defined Benefit Pension Plan

General Information About the Pension Plan

Plan description - Regular, full-time, employees of the Water District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority. The assets of CERS are pooled with two other retirement systems Kentucky Public Pensions Authority administers, KERS & SPRS. Although invested each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Public Pensions Authority's Board of Trustees (Board). Kentucky Public Pensions Authority issues a publicly available financial report that can be obtained on their website.

Benefits provided - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a $5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Membership in the CERS Non-hazardous Pension Fund consisted of the following on June 30, 2019:

Membership Status	
Retirees and beneficiaries receiving benefits	60,877
Inactive memberships	90,673
Active plan members	83,458
Total plan members	235,008

Prior to July 1, 2009, cost of living adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index (CPI) for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.50%. No COLA has been granted since July 1, 2011.

Contributions

The Commonwealth is required to contribute at an actuarially determined rate for KERS and SPRS pensions. Participating employers are required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Sections KERS 61.565(3), CERS 78.545(33), and SPRS 16.645(18), normal contribution and past service contribution rates shall be determined by the Board on the basis of the last annual valuation preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget for KERS and SPRS.

For the fiscal years ended June 30, 2020 and 2019, participating employers contributed a percentage of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal year is a percentage of each employee's creditable compensation. Administrative costs of KPPA are financed through employer contributions and investment earnings.

TIER 1:

Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

TIER 2:

Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute 6% (Non-Hazardous) or 9% (Hazardous) of their annual creditable compensation. Further, 1% of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation (KAR) 105 KAR 1:420 Employer's administrative duties). These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

TIER 3:

Tier 3 plan members, who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation, and an additional 1% to the health insurance fund (401(h) account), which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (Non-Hazardous) or 7.5% (Hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

Contribution Rates and Amounts for CERS Non-Hazardous

				Employer		
Period	Pension	Insurance	Total	Pension	Insurance	Employee
01/01/2020-06/30/2020	19.30%	4.76%	24.06%	$35,792	$10,504	$7,436
07/01/2020-12/31/2020	19.30%	4.76%	24.06%	40,972	10,105	6,905
Totals				$76,764	$20,609	$14,342

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

At December 31, 2020, the Water District reported a liability of $916,095 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water District's portion of the net pension liability was based on the Water District's proportionate share of retirement contributions for the fiscal year ended June 30, 2020. On June 30, 2020 the Water District's proportionate share was 0.011944%.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense, they are labeled deferred inflows. If they will increase pension expense, they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. For the year ended December 31, 2020, the Water District recognized pension expense of $130,279. On December 31, 2020, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Liability Experience	$ 22,845	$ -0-
Changes in assumptions	35,772	-0-
Differences between expected and actual Investment Experience	39,710	16,786
Changes in proportion and differences between employer contributions and proportionate share of contributions	126,584	32,010
Contributions subsequent to the measurement date	40,972	-0-
Total	$ 265,883	$ 48,796

$40,972 reported as deferred outflows of resources related to pensions resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. The remaining amount of $176,115 reported as the net effect of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Amount
2021	$ 67,965
2022	80,599
2023	18,343
2024	9,208
2025	-0-
Thereafter	-0-
Total	$ 176,115

Actuarial methods & assumptions: For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

The actuarial assumptions are:

Inflation	2.30% for all plans
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increases	3.30% to 10.30% varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS Non-hazardous

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Nonhazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session which delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	25 years, Closed
Payroll Growth Rate	2.00% for CERS non-hazardous
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%

Salary Increase	3.30%-11.55%, Varies by Service for CERS non-hazardous
Investment 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 (set back 1 year for females).

Post-retirement mortality (non-disabled): System-specific mortality table on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020.

Post-retirement mortality (disabled): PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 improvement scale using a base year of 2010.

The long-term expected rates of return were determined by using a building block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	**53.50%**	
US Equity	15.75%	4.50%
Non-US Equity	15.75%	5.25%
Private Equity	7.00%	5.15%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	**23.50%**	
Core Bonds	20.50%	(.25)%
Cash	3.00%	(.75)%
Diversifying Strategies	**23.00%**	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	**100.00%**	**3.33%**

Long Term Inflation Expectation is 2.30%

Discount rate - The projection of cash flows used to determine the discount rate of 5.25% for the KERS Non-hazardous, and 6.25% for KERS Hazardous, CERS Non-hazardous, and CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 2 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity of the employer's proportionate share of the net pension liability to changes in the discount rate - The following presents the net pension liability of the System, calculated using the discount rate of 6.25%, as well as what the System's 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 for non-hazardous:

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Proportionate share of the net pension liability	$ 1,129,744	$ 916,095	$ 739,185

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

Note 11 - Other Postemployment Benefits Plan (OPEB)

Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authoritys administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authoritys website.

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

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Actuarial methods & assumptions: For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, net OPEB liability and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Nonhazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session which delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020.

The actuarial assumptions are:

Inflation	2.30% for all plans
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increases	3.05%, average for non-hazardous
Investment Rate of Return	6.25% Healthcare for non-hazardous
Trend Rates	
Pre - 65	Initial trend starting at 7.00% on January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% on January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

Long-Term Expected Rate of Return - 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.

Asset Class	Target Allocation	Real Rate of Return
Growth	**53.50%**	
US Equity	15.75%	4.50%
Non-US Equity	15.75%	5.25%
Private Equity	7.00%	5.15%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	**23.50%**	

Core Bonds	20.50%	(.25)%
Cash	3.00%	(.75)%
Diversifying Strategies	**23.00%**	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	**100.00%**	**3.33%**
Long Term Inflation Expectation is 2.30%		

Discount Rate - The projection of cash flows used to determine the discount rate of 5.43% for KERS Non-hazardous, 5.28% for KERS Hazardous, 5.34% for CERS Non-hazardous, and 5.30% for CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 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 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's 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.

Use of Estimates in the Preparation of the Schedules - The preparation of the schedules in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2019:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Period	25 Years, Closed
Payroll Growth Rate	2.00%
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Investment Return	
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.
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.

Implicit Subsidy - KPPA pays fully insured premiums for the Kentucky Health Plan. The premiums are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability. The water district's implicit subsidy for the year ended December 31, 2020 was $5,562.

Contributions

The Commonwealth is required to contribute at an actuarially determined rate for KERS and SPRS pensions. Participating employers are required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Sections KERS 61.565(3), CERS 78.545(33), and SPRS 16.645(18), normal contribution and past service contribution rates shall be determined by the Board on the basis of the last annual valuation preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget for KERS and SPRS.

For the fiscal years ended June 30, 2020 and 2019, participating employers contributed a percentage of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal year is a percentage of each employee's creditable compensation. Administrative costs of KPPA are financed through employer contributions and investment earnings.

Contribution Rates and Amounts for CERS Non-Hazardous

				Employer		
Period	Pension	Insurance	Total	Pension	Insurance	Employee
01/01/2020-06/30/2020	19.30%	4.76%	24.06%	$35,792	$10,504	$7,436
07/01/2020-12/31/2020	19.30%	4.76%	24.06%	40,972	10,105	6,905
Totals				$76,764	$20,609	$14,342

Contributions including implicit subsidy $20,563

For additional information regarding contributions, please refer to the Defined Benefit Pension Plan footnote.

TIER 1:
Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

TIER 2:
Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute 6% (Non-Hazardous) or 9% (Hazardous) of their annual creditable compensation. Further, 1% of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation (KAR) 105 KAR 1:420 Employer's administrative duties). These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

TIER 3:
Tier 3 plan members, who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation, and an additional 1% to the health insurance fund (401(h) account), which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (Non-Hazardous) or 7.5% (Hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - On December 31, 2020, the Water District reported a liability of $288,135 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019, rolled-forward to June 30, 2020 using generally accepted actuarial principles. The Water District's proportion of the net OPEB liability was determined using the Water District's actual contributions for the year ended June 30, 2020. This method is expected to be reflective of the Water District's long-term contribution effort. For the year ended December 31, 2020, the Water District's proportion was 0.011940% which is equal to its proportion measured as of June 30, 2020.

For the year ended December 31, 2020, the Water District recognized OPEB expense of $36,333. On December 31, 2020, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability experience	$ 48,171	$ 48,209
Effects of changes in assumptions	50,150	305
Differences between projected and actual earnings on plan investments	15,466	5,883
Changes in proportion and differences between employer contributions		

and proportionate share of contributions	42,727	44,144
Contributions subsequent to the measurement date + implicit subsidy	17,181	-0-
Total	$ 173,695	$ 98,541

$17,181 reported of deferred outflows of resources resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020. Other amounts reported as the net effect of deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ended December 31,	Amount
2021	$ 13,090
2022	15,926
2023	10,505
2024	18,677
2025	(225)
Thereafter	-0-
Total	$ 57,973

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the proportionate share of the net OPEB liability calculated using the single discount rate of 5.34%, as well as what the Water District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (4.34%) or 1% higher (6.34%) than the current rate:

	Discount Rate	Proportionate Share of Net OPEB Liability
1% decrease	4.34%	$ 370,400
Current discount rate	5.34%	$ 288,135
1% increase	6.34%	$ 220,896

Sensitivity of the Water District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the 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 proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1% lower or 1% higher than the current rates:

	Proportionate Share of Net OPEB Liability
1% decrease	$ 223,228
Current healthcare cost trend rate	$ 288,135
1% increase	$ 367,299

Note 12- Overland Development

During 2016, the District acquired Overland Development Inc. (Overland). The District acquired the water utility system, including its water lines and approximately 116 meters. Overland services the Lockwood Estates area of Boyd County, Kentucky. The District paid $50,000 to acquire Overland and will pay Overland an additional $50,000 over the next sixty months ($833.33/month) for consulting services. No provision has been made for the monthly payments. These monthly payments will be recognized as an expense monthly, as the consulting services are provided.

At the time of acquisition, Overland's capital assets totaled $124,728 and its accumulated depreciation on the assets totaled $99,533. The District has included these amounts with its capital assets and accumulated depreciation. As a result, an acquisition adjustment of $24,805 has also been included and is being amortized accordingly.

Note 13 – Subsequent Events

The District has evaluated subsequent events through August 03, 2021 the date which the financial statements were available to be issued.

Subsequent Event - Coronavirus Pandemic:

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the entity's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the customers' ability to pay their bills. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of customers to continue making payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

Note 14 – Prior Period Adjustment

An adjustment was made in accordance with GASBs 68 and 75.

Debit | (Credit)

Account	Amount
Net pension liability	$ 255,552)
Net OPEB liability	(130,200)
Deferred inflows of resources	97,818
Deferred outlfows of resources	189,389
Pension expense (retirement contr.)	61,890
Total	$ 36,655

REQUIRED SUPPLEMENTARY INFORMATION

Cannonsburg Water District
Schedule of Employer's Proportionate Share of Net Pension Liability
December 31, 2020

	Measurement Date				
	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020
Proportion of the net pension liability (asset)	0.001436%	0.001369%	0.008719%	0.009392%	0.011944%
Proportionate share of the net pension liability (asset)	$ 707,032	$ 801,493	$ 531,014	$ 660,544	$ 916,095
Covered employee payroll	$ 342,371	$ 340,789	$ 340,879	$ 354,639	$ 293,728
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	206.51%	235.19%	155.78%	186.26%	311.89%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	53.32%	53.54%	50.45%	47.81%

	6/30/2015
Proportion of the net pension liability (asset)	0.014640%
Proportionate share of the net pension liability (asset)	$ 629,451
Covered employee payroll	$ 334,849
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	187.98%
Plan fiduciary net position as a percentage of the total pension liability	59.97%

Big Sandy Water District
Schedule of Employer's Contributions - Net Pension Liability
December 31, 2020

	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Contractually required contribution	$ 46,709	$ 36,170	$ 48,213	$ 74,061	$ 50,778
Contributions in relation to the contractually required contribution	46,709	36,170	48,213	74,061	50,778
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 353,920	$ 255,681	$ 314,297	$ 415,546	$ 286,831
Contributions as a percentage of covered employee payroll	13.20%	14.15%	15.34%	17.82%	17.70%

	12/31/2015
Contractually required contribution	$ 43,278
Contributions in relation to the contractually required contribution	43,278
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 343,796
Contributions as a percentage of covered employee payroll	12.59%

Big Sandy Water District
Schedule of Employer's Proportionate Share of Net OPEB Liability
December 31, 2020

	Measurement Date			
	6/30/2017	6/30/2018	6/30/2019	6/30/2020
Proportion of net OPEB liability (asset)	0.0136930%	0.008731%	0.009390%	0.011940%
Proportionate share of net OPEB liability (asset)	$ 275,276	$ 155,017	$ 157,936	$ 288,135
Covered employee payroll	$ 340,789	$ 253,775	$ 354,639	$ 293,728
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	80.78%	61.08%	44.53%	98.10%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	51.67%

Big Sandy Water District
Schedule of Employer's Contributions - Net OPEB Liability
December 31, 2020

	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Statutorily required contribution	$ 12,579	$ 15,122	$ 20,777	$ 14,397
Contributions in relation to the statutorily required contribution	12,579	15,122	20,777	14,397
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered employee payroll	$ 255,681	$ 314,297	$ 415,546	$ 286,831
Contributions as a percentage of covered-employee payroll	4.92%	4.81%	5.00%	5.02%

County Employee Retirement System – Pension & Insurance Funds

Changes of benefit terms

During the **2020** legislative session, Senate Bill 249 passed and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

During the **2019** Special Legislative Session, House Bill 1 passed allowing certain employers in the KERS Nonhazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session which delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

During the **2019** legislative session, House Bill 484 was enacted, which updated the benefit provisions for active members who die in the line of duty.

- Pension – Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

- Insurance – The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

Changes in assumptions

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2020:**

- The rate of inflation, payroll growth rate, investment rate of return, healthcare trend rate assumptions and mortality tables remain the same as those previously adopted.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2019:**

- The rate of inflation, payroll growth rate, salary increases, and investment rate of return assumptions remain the same as those adopted for the June 30, 2017 valuation.
- The salary increase assumption was increased from an average of 3.05% to a range that varies by service of 3.30% - 10.30%.
- The healthcare trend rates used were updated to the following:

  Pre-65 – Initial trend starting at 7.00% at January 01, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.

  Post-65 – Initial trend starting at 5.00% at January 01, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
- The mortality tables used were updated to the following:

  Active members – PUB 2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

  Healthy retired members – System specific mortality table based on mortality experience form 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019.

  Disabled retire members – PUB 2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality scale using a base year of 2010.

(Changes in Assumptions continued)

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2017:**

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The payroll growth rate was reduced from 4.00% to 2.00%.
- The salary increase assumption was reduced from 4.00% average to 3.05% average.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2015:**

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 4.50% to 4.00%.
- The payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB 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. 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.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

SUPPLEMENTARY INFORMATION

BIG SANDY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended September 30, 2020

Program Title	Federal CFDA#	Federal Expenditures
U.S. Department of HUD		
Direct Program		
Waste & Waste Disposal Systems for Rural Communities	10.760	$ 2,718,683
Total		$ 2,718,683

Notes to Schedule of Expenditures of Federal Awards

NOTE A – BASIS OF PRESENTATION
The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Big Sandy Water District ("District"), under programs of the federal government for the year ended September 30, 2020, in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance").*

NOTE B - SIGNIFICANT ACCOUNTING POLICIES
The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award program and does present transactions that would be included in financial statements of the District presented on the accrual basis of accounting as contemplated by generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited to reimbursement.

NOTE C – INDIRECT COST RATE
The District elected not to use the 10% de minimis cost rate allowed under Uniform Guidance.

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

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Big Sandy Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Big Sandy Water District's major federal programs for the year ended September 30, 2020. Big Sandy Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Big Sandy Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Report on Internal Control over Compliance

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

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

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

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

John T. Lane & Associates LLC

Mount Sterling, Kentucky

July xx, 2021

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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*

Board of Commissioners
Big Sandy Water District
Catlettsburg, 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 business-type activities of the Big Sandy Water District, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Big Sandy Water District's basic financial statements, and have issued our report thereon dated July xx, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Big Sandy Water District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Big Sandy Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Big Sandy Water District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Big Sandy Water District's financial statements are free from 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 financial statements. 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*.

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.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

July xx, 2021

Big Sandy Water District
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended December 31, 2019 and December 31, 2020

	2019	2020
Revenues		
User fees	$ 2,459,585	$ 2,655,072
Other water revenue	31,523	29,322
Other revenue	-	4,936
Total Revenues	2,491,108	2,689,330
Expenses		
Wages	472,184	459,241
Commissioners expense	2,289	375
Taxes	35,110	42,716
Employee benefits	155,254	241,808
Purchased water	1,106,337	1,105,518
Purchased power	107,411	94,226
Materials & supplies	345,509	305,855
Contractual services	121,523	180,792
Transportation expenses	36,716	36,425
Equipment expense	16,956	11,048
Insurance	28,264	27,505
Postage	20,903	17,205
Bad debt	11,294	-
Other expense	15,864	14,464
Telephone	9,212	9,040
Advertising	(232)	332
Depreciation	502,603	475,021
Total Operating Expenses	2,987,197	3,021,571
Operating Income (Loss)	(496,089)	(332,241)
Nonoperating Revenues (Expenses)		
Tap fees	42,785	49,280
Federal grants	-	653,683
Miscellaneous income - nonoperating	11,305	13,486
Interest expense	(139,024)	(90,649)
Interest income	9,064	751
Net Nonoperating Revenues (Expenses)	(75,870)	626,551
Change in Net Position	$ (571,959)	$ 294,310

The accompanying notes to the basic financial statements are an integral part of these statements.

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:
Material weakness(es) identified? _____ yes __x__ no

Significant deficiency(ies) identified? _____ yes __x__ no

Noncompliance material to financial statements noted? _____ yes __x__ no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? _____ yes __x__ no

Significant deficiency(ies) identified? _____ yes __x__ no

Type of auditor's report issued on compliance for major programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, §200.516? _____ yes __x__ no

Identification of Major Programs

CFDA Number(s)	Name of Federal Program
10.760	Waste & Waste Disposal Systems for Rural Communities

Miscellaneous

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee? _____ yes __x__ no

A. Financial Statement Findings

PRIOR FINDINGS
None

CURRENT FINDINGS
None

C. Federal Award Findings & Questioned Costs
None