

BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ending December 31, 2020 and 2019

BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2020 and 2019

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BULLOCK PEN WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2020 and 2019

Bobby Burgess, Chair

Andrea Walton, Vice-Chair

Charles Givin, Treasurer

William Wethington, Secretary

Rodger Bingham, Commissioner

Of Counsel

Thomas R. Nienaber, Esq.

Administration

Brian Simpson, General Manager

Independent Auditor's Report

**To the Board of Commissioners
Bullock Pen Water District**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bullock Pen Water District (District), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-9 and the pension and OPEB disclosure information on pages 33 and 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bullock Pen Water District's basic financial statements. The schedules of operations, maintenance and administrative expenses, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operations, maintenance and administrative expenses on page 35 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. 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 information is 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 May 25, 2021, on our consideration of Bullock Pen 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on Bullock Pen Water District's internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bullock Pen Water District's internal control over financial reporting and compliance.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.

Certified Public Accountants

Erlanger, Kentucky

May 25, 2021

BULLOCK PEN WATER DISTRICT

1 Farrell Drive
Crittenden, Kentucky 41030

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2020. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$15,333,975 (net position). This was an increase of \$146,416 in comparison to the prior year's decrease of \$91,378. During 2020, the District's operating revenues increased 2.93% or \$128,069 while operating expenses decreased 2.77% or \$118,240.
- At the end of the current year, unrestricted net position was \$1,011,188.

USING THIS ANNUAL REPORT

The financial statements presented herein include all the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

Statements of Net Position and Revenues, Expenses and Changes in Net Position

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of certain services the District provides.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2020 and 2019.

**Table 1
Net Position**

	<u>2020</u>	<u>2019</u>
Current assets	\$ 3,799,575	\$ 3,088,630
Restricted assets	1,518,010	1,823,335
Capital assets, net of depreciation	17,016,029	17,383,154
Deferred outflow of resources	<u>714,404</u>	<u>597,954</u>
Total assets and deferred outflow of resources	<u>23,048,018</u>	<u>22,893,073</u>
Current liabilities	484,815	378,028
Liabilities payable from restricted assets	637,879	657,137
Long - term liabilities	6,395,236	6,388,147
Deferred inflow of resources	<u>196,113</u>	<u>282,202</u>
Total liabilities and deferred inflow of resources	<u>7,714,043</u>	<u>7,705,514</u>
Net position:		
Net investment in capital assets	13,291,166	13,201,686
Restricted	1,031,621	1,028,875
Unrestricted	<u>1,011,188</u>	<u>956,998</u>
Total net position	<u>\$15,333,975</u>	<u>\$15,187,559</u>

The District's net position for 2020 increased .96% or \$146,416 as compared to a .60% or \$91,378 decrease in the previous year.

The largest portion of the District's net position (86.7%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is 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 the debt.

An additional portion of the District's net position (6.7%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

SUMMARY OF CHANGES IN NET POSITION

Operating Revenues

The District's operating revenues increased by \$128,069 or 2.93%. Water sales increased while the management fee charged to the sewer district increased as a result of renegotiating the contract with the sewer district during 2020.

Operating Expenses

The District's operating expenses decreased \$118,240 or 2.77%. Water costs decreased slightly by \$1,362. Operation and maintenance expenses decreased by \$111,817 primarily due to decreases in materials and supplies. In the previous year, the district was working on changing out many of the old meters but that project was completed by 2020.

Net Effect On Change Of Pension and OPEB Expense

The District is required to report its proportionate share of the estimated unfunded pension and OPEB liability associated with its participation in the County Employee Retirement System in its financial statements. The amount that appears as a non-operating expense, \$269,360, is the result of booking the change in the liability and the related deferred inflows and outflows less any amortization of those inflows and outflows between June 30, 2019 and June 30, 2020. This expense increased \$28,085 from the amount reported in 2019. See Note 9 to the financial statements for a more complete explanation of this unfunded liability and the related deferred inflows and outflows.

Capital Contributions

Capital contributions increased \$6,316. Surcharge collections actually declined \$12,883 during 2020, due to reductions in the monthly surcharge amounts charged to customers as required in the Public Service Commission order approving the surcharge.

The following schedule compares the revenues and expenses for the current year and the previous year.

Table 2
Changes in Net Position

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Water sales	\$ 4,285,449	\$ 4,052,110
Forfeited discounts	13,730	96,843
Miscellaneous services revenues	19,164	54,783
Management fee	<u>173,514</u>	<u>160,052</u>
Total operating revenues	<u>4,491,857</u>	<u>4,363,788</u>
Operating expenses:		
Water purchased	1,515,102	1,516,464
Operations, maintenance, and administrative expenses	2,038,385	2,150,202
Depreciation and amortization	<u>603,916</u>	<u>608,977</u>
Total operating expenses	<u>4,157,403</u>	<u>4,275,643</u>
Operating income	<u>334,454</u>	<u>88,145</u>
Non-operating income (expense)		
Investment income	18,842	19,712
Loss on sale of capital assets	-	(25)
Interest on long-term obligations	(113,651)	(127,750)
Amortization of bond discounts	(911)	(911)
Net effect on change of pension and OPEB expense	<u>(269,360)</u>	<u>(241,275)</u>
Net non-operating expenses	<u>(365,080)</u>	<u>(350,249)</u>
Net loss	(30,626)	(262,104)
Capital contributions	<u>177,042</u>	<u>170,726</u>
Change in net position	146,416	(91,378)
Net position – January 1	<u>15,187,559</u>	<u>15,278,937</u>
Net position – December 31	<u>\$15,333,975</u>	<u>\$15,187,559</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2020, the District had \$17,016,029 invested in capital assets including land, buildings, water treatment, transmission and distribution system, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$367,125. This decrease is mainly due to the fact that depreciation expense of \$602,283 was more than the cost of new assets purchased during 2020.

Table 3 Summarizes the District's capital assets at the end of 2020 as compared to 2019.

**Table 3
Capital Assets at Year End**

	<u>2020</u>	<u>2019</u>
Land	\$ 200,283	\$ 200,283
Buildings and improvements	1,698,724	1,572,952
Construction in progress	42,934	39,942
Other plant & miscellaneous equipment	747,928	745,907
Transportation equipment	315,340	315,340
Transmission and distribution system	26,001,805	25,901,285
Furniture and fixtures	<u>71,509</u>	<u>67,656</u>
Subtotal	29,078,523	28,843,365
Accumulated depreciation	<u>(12,062,494)</u>	<u>(11,460,211)</u>
Total capital assets	<u>\$17,016,029</u>	<u>\$17,383,154</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2020 compared to 2019.

**Table 4
Outstanding Debt at Year End**

	<u>2020</u>	<u>2019</u>
Bond Payable Obligations	\$ 509,000	\$ 588,000
Notes Payable	3,057,463	3,350,921
Capitalized Leases	<u>240,519</u>	<u>320,908</u>
Total	<u>\$ 3,806,982</u>	<u>\$ 4,259,829</u>

At year-end, the District had \$3,806,982 in outstanding long-term debt compared to \$4,259,829 last year. This is a decrease of \$452,847 which is the amount of principal paid on the District's debt during 2020.

All of the required payments were made on the District's outstanding debt during 2020.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2021 projects a year very similar to 2020. Water revenues are expected to increase. Operation expenses are expected to increase primarily due to increases in employee wages and benefits. The District is planning to do some maintenance projects during 2021 which will also cause an increase in operation expenses. The increase in operating income is expected to be offset by the increase in operating expenses so that the decrease in net position during 2021 is expected to be less than it was in 2020.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 1 Farrell Drive, Crittenden, Kentucky 41030.

Brian Simpson

Brian Simpson, Superintendent
Bullock Pen Water District

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,813,229	\$ 1,465,986
Certificates of deposit	1,122,011	824,633
Accounts receivable		
Customers, net of allowance	625,260	578,602
Other	21,081	23,548
Inventories	178,178	155,428
Prepays	31,669	35,261
Accrued interest receivable	5,683	2,628
Unamortized expenses	2,464	2,544
Total current assets	<u>3,799,575</u>	<u>3,088,630</u>
Restricted assets		
Current reserve fund - USDA Rural Development	152,425	151,778
Debt payment account	379,689	395,196
Accounts receivable - surcharges	10,493	9,920
FSA account	4,858	3,922
Customer deposits	267,647	327,397
Maintenance and replacement reserve	702,898	935,122
Total restricted assets	<u>1,518,010</u>	<u>1,823,335</u>
Capital assets		
Land, building, transmission system, equipment, and vehicles	29,035,589	28,803,423
Construction in progress	42,934	39,942
Total utility plant in service	29,078,523	28,843,365
Less: accumulated depreciation	<u>(12,062,494)</u>	<u>(11,460,211)</u>
Total capital assets, net of depreciation	<u>17,016,029</u>	<u>17,383,154</u>
Total assets	<u>22,333,614</u>	<u>22,295,119</u>
Deferred outflow of resources		
Unamortized debt discounts	4,687	5,518
Unamortized tap-in expense	32,250	33,883
Deferred outflows related to pensions and OPEB	677,467	558,553
Total deferred outflow of resources	<u>714,404</u>	<u>597,954</u>
Total assets and deferred outflow of resources	<u>23,048,018</u>	<u>22,893,073</u>

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

(Continued on Page 11)

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION (Continued from Page 10) December 31, 2020 and 2019
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	<u>2020</u>	<u>2019</u>
Liabilities		
Current liabilities		
Accounts payable	188,639	169,297
Accrued and withheld liabilities	296,176	208,731
Total current liabilities	<u>484,815</u>	<u>378,028</u>
Current liabilities payable from restricted assets		
Revenue bonds - current portion	83,000	79,000
Notes payable - current portion	301,544	293,456
Lease obligations - current portion	82,724	80,387
Customer deposits	154,612	186,073
Accrued interest payable	15,999	18,221
Total current liabilities payable from restricted assets	<u>637,879</u>	<u>657,137</u>
Long-term obligations		
Bonds	426,000	509,000
Notes payable	2,755,919	3,057,465
Capital lease obligations	157,795	240,521
Net unfunded pension and OPEB liability	3,055,522	2,581,161
Total long-term obligations	<u>6,395,236</u>	<u>6,388,147</u>
Total liabilities	7,517,930	7,423,312
Deferred inflow of resources		
Deferred inflows related to pensions and OPEB	<u>196,113</u>	<u>282,202</u>
Total liabilities and deferred inflow of resources	<u>7,714,043</u>	<u>7,705,514</u>
Net position		
Net investment in capital assets	13,291,166	13,201,686
Restricted	1,031,621	1,028,875
Unrestricted	<u>1,011,188</u>	<u>956,998</u>
Total net position	<u>\$ 15,333,975</u>	<u>\$ 15,187,559</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ending December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Water revenue	\$ 4,318,343	\$ 4,203,736
Management fees	173,514	160,052
Total operating revenues	<u>4,491,857</u>	<u>4,363,788</u>
Operating expenses		
Water purchased	1,515,102	1,516,464
Operations, maintenance, and administrative expenses	2,038,385	2,150,202
Depreciation and amortization	603,916	608,977
Total operating expenses	<u>4,157,403</u>	<u>4,275,643</u>
Operating income	<u>334,454</u>	<u>88,145</u>
Non-operating income (expense)		
Investment income	18,842	19,712
Loss on sale of capital assets	-	(25)
Net effect on change of pension and OPEB expense	(269,360)	(241,275)
Interest on long-term obligations	(113,651)	(127,750)
Amortization of bond discounts	(911)	(911)
Net non-operating expenses	<u>(365,080)</u>	<u>(350,249)</u>
Net loss	(30,626)	(262,104)
Capital contributions	<u>177,042</u>	<u>170,726</u>
Change in net position	146,416	(91,378)
Net position, January 1	<u>15,187,559</u>	<u>15,278,937</u>
Net position, December 31	<u><u>\$ 15,333,975</u></u>	<u><u>\$ 15,187,559</u></u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Received from customers	\$ 4,447,666	\$ 4,372,821
Paid to suppliers for goods and services	(2,195,850)	(2,336,953)
Paid to or on behalf of employees for services	(1,270,008)	(1,253,014)
Net change in cash for operating activities	<u>981,808</u>	<u>782,854</u>
Cash flows from investing activities		
Acquisition and construction of capital assets	(235,158)	(83,559)
Interest on investments	15,787	20,465
Proceeds from sale of capital assets	-	1,200
Net change in cash for investing activities	<u>(219,371)</u>	<u>(61,894)</u>
Cash flows from capital and related financing activities		
Contributed capital received	177,042	170,726
(Decrease) increase in customer deposits	(31,461)	446
Interest paid on long term debt	(115,877)	(129,583)
Principal paid on long term debt	(452,846)	(439,812)
Decrease (increase) in restricted assets	305,325	(218,633)
Net change in cash for capital and related financing activities	<u>(117,817)</u>	<u>(616,856)</u>
Change in cash and cash equivalents	644,620	104,104
Cash and cash equivalents-beginning of year	<u>2,290,620</u>	<u>2,186,516</u>
Cash and cash equivalents-end of year	<u>\$ 2,935,240</u>	<u>\$ 2,290,620</u>
Reconciliation of operating income to net cash provided by (used for) operating activities		
Operating income	\$ 334,454	\$ 88,145
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	603,916	608,977
Change in operating assets and liabilities		
(Increase) decrease in receivables	(44,191)	9,033
(Increase) decrease in inventories	(22,750)	4,293
Decrease in prepaid assets	3,592	19,431
Increase in accounts payable	19,342	17,751
Increase in other accrued liabilities	87,445	35,224
Net cash provided by operating activities	<u>\$ 981,808</u>	<u>\$ 782,854</u>
Supplemental information		
Interest paid	<u>\$ 115,877</u>	<u>\$ 129,583</u>
Non-cash contribution to fixed assets	<u>\$ -</u>	<u>\$ -</u>

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019
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NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Bullock Pen Water District (District) is a water utility, which provides service to residential and commercial customers in Grant, Boone, Kenton, Pendleton, and Gallatin Counties in Kentucky. The District was created by the Grant County Fiscal Court under the provisions of chapter 74 of the Kentucky Revised Statutes (KRS) in 1957.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (PSC) pursuant to KRS 278.040.

Basis of Accounting

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments in the United States of America.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, 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.

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 statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

Cash Equivalents

For purposes of the balance sheets and the statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget to the Kentucky Department of Local Government website by January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019</p>

Distribution System, Building, and Equipment

Property, plant, transmission lines, and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the “Non-Operating Income (Expense)” portion of results of operations.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as “Construction in Progress”. When the asset under construction is ready for use, related costs are transferred to the asset account. The Construction in Progress account was \$42,934 and \$39,942 at December 31, 2020 and 2019, respectively.

Miscellaneous Deferred Charges

Bond premiums and discounts are deferred and amortized over the life of the bond. The District amortizes expenses related to tapping into the Northern Kentucky Water District. The District also amortizes costs associated with the preparation, filing, and completion of its rate case proceedings.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District’s income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors.

During 2020 and 2019 these contributions consisted of the following:

<u>Source</u>	<u>2020</u>	<u>2019</u>
Tap in fees and construction costs paid by new customers	\$ 102,200	\$ 83,000
Surcharges - Phases 5, 6, 8, and 10	74,842	87,726
Total income received in aid of construction	177,042	170,726
Waterlines and related infrastructure received without cost	-	-
Total capital contributions	<u>\$ 177,042</u>	<u>\$ 170,726</u>

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019</p>

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking accounts and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the statements of net position as “Cash and Cash Equivalents,” “Certificates of Deposit,” and “Restricted Assets”. The balances for “Cash and Cash Equivalents” were \$1,813,229 and \$1,465,986 at December 31, 2020 and 2019, respectively. The balances for “Certificates of Deposit” were \$1,122,011 and \$824,633 at December 31, 2020 and 2019, respectively. The balances for “Restricted Assets,” net of accounts receivable - surcharges were \$1,507,517 and \$1,813,415 at December 31, 2020 and 2019, respectively. The District has amounts on deposit with two banks in excess of FDIC insured amounts. The banks have pledged collateral agreements to cover such excess amounts. At December 31, 2020, all amounts held on deposit by the District were sufficiently collateralized.

Investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

The District’s investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2020. The categories are described as follows:

Category 1 – Insured and registered, with securities held by the entity or its agent in the entity’s name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the entity’s name;

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity’s name.

At December, 31, 2020	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation and maintenance	\$ 2,940,099	\$ -	\$ -	\$ 2,940,099	\$ 2,940,099
Customer deposits	267,647	-	-	267,647	267,647
Debt payment accounts	277,829	-	101,860	379,689	379,689
Current and replacement reserve	855,323	-	-	855,323	855,323
Total	<u>\$ 4,340,898</u>	<u>\$ -</u>	<u>\$ 101,860</u>	<u>\$ 4,442,758</u>	<u>\$ 4,442,758</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019
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NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net position. Invested in capital assets, net of related debt, consists of all capital assets net of accumulated depreciation and reduced by outstanding debts that are attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories.

The following amounts are included in restricted net position at December 31, 2020 and 2019:

	2020	2019
Current reserve fund - USRDA	\$ 143,400	\$ 143,400
Debt payment account	177,405	157,261
Customer deposits - current	154,612	186,073
Account receivable - surcharge	4,064	3,918
Accrued interest payable	(9,600)	(11,153)
Portion of bonds payable	(83,000)	(79,000)
Maintenance and replacement	644,740	628,376
Total restricted net position	<u>\$ 1,031,621</u>	<u>\$ 1,028,875</u>

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-50 years
Furniture and fixtures	3-10 years
Machinery and equipment	5-25 years
Transportation equipment	3-13 years
Transmission lines and distribution systems	50 years

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

The capital asset balances at December 31, 2020 and 2019 are as follows:

Asset Type	Balance at December 31, 2019	Additions	Retirements	Balance at December 31, 2020
Land	\$ 200,283	\$ -	\$ -	\$ 200,283
Buildings and improvements	1,572,952	125,772	-	1,698,724
Construction in progress	39,942	2,992	-	42,934
Distribution reservoirs and standpipes	3,926,053	-	-	3,926,053
Furniture and fixtures	67,656	3,853	-	71,509
Hydrants	1,295,225	-	-	1,295,225
Meter system and installation	4,377,072	100,520	-	4,477,592
Other plant and misc. equipment	454,239	-	-	454,239
Pumping equipment	48,816	2,021	-	50,837
Tools and lab equipment	127,249	-	-	127,249
Transmission mains	16,302,935	-	-	16,302,935
Transportation equipment	315,340	-	-	315,340
Water treatment equipment	115,603	-	-	115,603
Subtotal	28,843,365	235,158	-	29,078,523
Accumulated depreciation	(11,460,211)	(602,283)	-	(12,062,494)
Capital Assets, net	<u>\$ 17,383,154</u>	<u>\$ (367,125)</u>	<u>\$ -</u>	<u>\$ 17,016,029</u>

NOTE 5 – BONDED INDEBTEDNESS

Water Works System Revenue Bonds, U.S. Department of Agriculture 1982

On August 6, 1982, the District sold \$125,000 of revenue bonds for the purpose of financing the costs of major water system facilities. All bonds mature on January 1st of each year beginning in 1984 and ending in 2022. Interest is payable on January 1st and July 1st of each year and principal is due in annual installments on January 1st through 2022. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	5.00%	\$ 7,000	\$ 525	\$ 7,525
2022	5.00%	7,000	175	7,175
Totals		<u>\$ 14,000</u>	<u>\$ 700</u>	<u>\$ 14,700</u>

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001C - Refinancing

On July 31, 2002, the District sold \$574,000 of revenue bonds for the purpose of refinancing existing obligations. All bonds mature on February 1st of each year beginning in 2003 and ending in 2021. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2021. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	5.00%	\$ 43,000	\$ 1,075	\$ 44,075
Totals		<u>\$ 43,000</u>	<u>\$ 1,075</u>	<u>\$ 44,075</u>

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2005B - Phase 8

On October 19, 2005, the District sold \$514,000 of revenue bonds for the purpose of funding its Phase 8 waterline extension project. All bonds mature on February 1st of each year beginning in 2007 and ending in 2031. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2031. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	4.215-4.590%	\$ 21,000	\$ 12,378	\$ 33,378
2022	4.290-4.590%	21,000	11,485	32,485
2023	4.340-4.590%	22,000	10,557	32,557
2024	4.340-4.590%	23,000	9,581	32,581
2025	4.390-4.590%	25,000	8,533	33,533
2026-2030	4.400-4.590%	144,000	24,426	168,426
2031	4.59%	33,000	758	33,758
Totals		<u>\$ 289,000</u>	<u>\$ 77,718</u>	<u>\$ 366,718</u>

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2005B - Phase 10

On October 19, 2005, the District sold \$290,000 of revenue bonds for the purpose of funding its Phase 10 waterline extension project. All bonds mature on February 1st of each year beginning in 2007 and ending in 2031. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2031. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	4.215-4.590%	\$ 12,000	\$ 6,977	\$ 18,977
2022	4.290-4.590%	12,000	6,466	18,466
2023	4.340-4.590%	12,000	5,949	17,949
2024	4.340-4.590%	14,000	5,384	19,384
2025	4.390-4.590%	14,000	4,773	18,773
2026-2030	4.400-4.590%	81,000	13,644	94,644
2031	4.59%	18,000	413	18,413
Totals		<u>\$ 163,000</u>	<u>\$ 43,606</u>	<u>\$ 206,606</u>

NOTE 6 – NOTES PAYABLE

Kentucky Infrastructure Authority - Drinking Water Supply Project 2002

On February 1, 2002, the District signed a note from the Kentucky Infrastructure Authority for \$350,367 to fund waterline replacement and extension projects. Water system revenues serve as collateral for this loan. The note carries an interest rate of 3.80% and matures on December 1, 2022. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	3.80%	\$ 23,565	\$ 1,604	\$ 25,169
2022	3.80%	24,469	699	25,168
Totals		<u>\$ 48,034</u>	<u>\$ 2,303</u>	<u>\$ 50,337</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019
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Kentucky Infrastructure Authority - Drinking Water Supply Project 2003

On November 1, 2003, the District signed a note from the Kentucky Infrastructure Authority for \$1,210,604 to fund waterline extension projects and the Mt. Zion water tank installation. Water system revenues serve as collateral for this loan. The note carries an interest rate of 3.0% and matures on June 1, 2024. The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	3.00%	\$ 73,632	\$ 7,480	\$ 81,112
2022	3.00%	75,857	5,254	81,111
2023	3.00%	78,150	2,961	81,111
2024	3.00%	39,956	600	40,556
Totals		<u>\$ 267,595</u>	<u>\$ 16,295</u>	<u>\$ 283,890</u>

Kentucky Infrastructure Authority – Drinking Water Supply Project 2010

During 2009, the District executed a drawdown loan with the Kentucky Infrastructure Authority for \$2,192,700 to finance the Phase 6 waterline extension project. The final draw on this loan was taken on February 15, 2011. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 3.0% and matures on December 1, 2030. The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	3.00%	\$ 109,656	\$ 36,935	\$ 146,591
2022	3.00%	112,970	33,621	146,591
2023	3.00%	116,385	30,206	146,591
2024	3.00%	119,903	26,688	146,591
2025	3.00%	123,527	23,064	146,591
2026-2030	3.00%	675,945	57,012	732,957
Totals		<u>\$ 1,258,386</u>	<u>\$ 207,526</u>	<u>\$ 1,465,912</u>

Kentucky Infrastructure Authority – Drinking Water State Revolving Loan Fund 2012

During 2012, the District executed a drawdown loan with the Kentucky Infrastructure Authority for \$1,796,300 to finance the Phase 12 500,000 gallon water tower storage tank. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 2.0% and matures on June 1, 2034. The final draw on this loan was deposited on October 23, 2014. The remaining debt service is as follows:

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019</p>

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	2.00%	\$ 84,055	\$ 25,360	\$ 109,415
2022	2.00%	85,745	23,670	109,415
2023	2.00%	87,468	21,947	109,415
2024	2.00%	89,226	20,189	109,415
2025	2.00%	91,020	18,394	109,414
2026-2030	2.00%	483,289	63,785	547,074
2031-2034	2.00%	368,082	14,870	382,952
Totals		<u>\$ 1,288,885</u>	<u>\$ 188,215</u>	<u>\$ 1,477,100</u>

Kentucky Infrastructure Authority - Drinking Water State Revolving Loan Fund 2015

On September 10, 2015, the District executed a drawdown loan with the Kentucky Infrastructure Authority in order to finance its Phase 14 looped lines. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 1.75% and matures on June 1, 2036. The final draw on this loan was deposited on August 25, 2016. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	1.75%	\$ 10,636	\$ 3,359	\$ 13,995
2022	1.75%	10,823	3,172	13,995
2023	1.75%	11,013	2,982	13,995
2024	1.75%	11,207	2,788	13,995
2025	1.75%	11,404	2,591	13,995
2026-2030	1.75%	60,098	9,876	69,974
2031-2035	1.75%	65,569	4,405	69,974
2036	1.75%	13,813	180	13,993
Totals		<u>\$ 194,563</u>	<u>\$ 29,353</u>	<u>\$ 223,916</u>

NOTE 7 – CAPITAL LEASES

BB&T - 2013

On October 29, 2013, the District signed a capital lease agreement with BB&T for \$769,465, which served to relinquish the District's obligations on its December 28, 1978 bond debt through the U.S. Department of Agriculture and its May 15, 2002 Series 2001C – Surcharge and Series 2001C – Phase V bond debt through the Kentucky Rural Water Finance Corporation. The interest rate is fixed at 2.80%. Principal and interest payments are due on the twenty-ninth day of each month beginning November 29, 2013 and ending October 29, 2023.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019
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Future minimum lease payments are as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Lease Payment
2021	2.80%	\$ 82,724	\$ 5,758	\$ 88,482
2022	2.80%	85,103	3,379	88,482
2023	2.80%	72,692	1,042	73,734
Totals		<u>\$ 240,519</u>	<u>\$ 10,179</u>	<u>\$ 250,698</u>

NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2020 are as follows:

Debt Instrument	Balance at December 31, 2019	Additions	Retirements	Balance at December 31, 2020
USDA revenue bonds of 1982	\$ 21,000	\$ -	\$ (7,000)	\$ 14,000
KRW series 2001C bonds - Refinancing	84,000	-	(41,000)	43,000
KRW series 2005B bonds - Phase 8	309,000	-	(20,000)	289,000
KRW series 2005B bonds - Phase 10	174,000	-	(11,000)	163,000
Note payable - KIA 2002	70,729	-	(22,695)	48,034
Note payable - KIA 2003	339,067	-	(71,472)	267,595
Construction loan - KIA	1,364,825	-	(106,439)	1,258,386
Construction loan -Phase 12 - KIA	1,371,284	-	(82,399)	1,288,885
Note payable - KIA 2015	205,016	-	(10,453)	194,563
Capital lease - BB&T	320,908	-	(80,389)	240,519
Subtotal	<u>4,259,829</u>	<u>\$ -</u>	<u>\$ (452,847)</u>	<u>3,806,982</u>
Less: current portion of long-term debt	<u>(452,843)</u>			<u>(467,268)</u>
Total Long-Term Indebtedness	<u>\$ 3,806,986</u>			<u>\$ 3,339,714</u>

NOTE 9 - COUNTY EMPLOYEES' RETIREMENT SYSTEM

Plan description - Employees are covered by CERS (County Employees' Retirement System), a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement 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 <http://kyret.ky.gov/>.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications. The Bullock Pen Water District has only Non-Hazardous employees.

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019</p>

Membership in CERS consisted of the following at June 30, 2020:

	Non-Hazardous	
	Pension	OPEB
Active Plan Members	81,506	81,147
Inactive Plan Members	91,543	29,362
Retired Members	64,539	36,371
	<u>237,588</u>	<u>146,880</u>
Number of participating employers		<u>1,136</u>

PENSION PLAN

Non-Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required pension plan contributions by the employee are based on the tier:

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019
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	Required Contribution
Tier 1	5%
Tier 2	5%
Tier 3	5%

Contributions

For non-hazardous duty employees, the District contributed 24.06% (from January – June 2020), of which 19.30% was for the pension fund and 4.76% was for the health insurance fund, and 24.06% (from July – December 2020), of which 19.30% was for the pension fund and 4.76% was for the health insurance fund, of the non-hazardous duty covered-employee’s compensation during the fiscal year ended December 31, 2020.

The District made all required contributions for the non-hazardous Plan obligation for the fiscal year in the amount of \$190,444, of which \$152,767 was for the pension fund and \$37,677 was for the health insurance fund.

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

At December 31, 2020, the District reported a liability of \$2,324,062 as 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 District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the District’s non-hazardous employer allocation proportion was 0.03030% of the total CERS non-hazardous duty employees. For the year ended December 31, 2020, the District recognized pension expense of \$222,559 in addition to its \$152,767 pension contribution.

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 57,955	\$ -
Net difference between projected actual earnings on plan investments	58,156	-
Changes of assumptions	90,751	-
Changes in proportion and differences between contributions and proportionate share of contributions	34,822	(8,112)
Contributions subsequent to the measurement date	76,765	-
	<u>\$ 318,449</u>	<u>\$ (8,112)</u>

The District’s contributions subsequent to the measurement date of \$76,765 will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019
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deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	Net Deferral
2021	\$ 105,089
2022	74,823
2023	30,303
2024	23,357
	<u>\$ 233,572</u>

Actuarial Assumptions

The total pension liability as of December 31, 2020 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2020, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018
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 method	Level percentage of payroll
Amortization period	25 years, closed
Payroll growth rate	2.00%
Investment rate of return	6.25%
Inflation	2.30%
Salary increases	3.05-11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set-back 1 year for females)

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

Changes of Assumptions

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019
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Plan Target Allocation

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

Asset Class	CERS Pensions (Haz & Non-Haz) Target Allocation	Long Term Expected Nominal Return
US equity	18.75%	4.50%
Non-US equity	18.75%	5.25%
Private equity	10.00%	6.65%
Specialty credit/high yield	15.00%	3.90%
Core bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real return	15.00%	3.95%
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

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 percent, 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 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.25%	6.25%	7.25%
Non-hazardous	\$ 2,866,074	\$ 2,324,062	\$ 1,875,255

HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019</p>

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$13.38 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$13.38 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the period January - June 2020, was 4.76% and for July – December 2020 was 4.76% of covered-employee payroll for non-hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$37,677 for non-hazardous duty employees for the year ended December 31, 2020.

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

At December 31, 2020, the District reported a liability of \$731,460 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019
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District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At December 31, 2020, the District's proportion of the non-hazardous plan was .03029%.

For the year ended December 31, 2020, the District recognized an OPEB expense of \$46,801. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 122,212	\$ (122,307)
Net difference between projected actual earnings on plan investments	24,312	-
Changes of assumptions	127,231	(774)
Changes in proportion and differences between contributions and proportionate share of contributions	8,821	(7,412)
Contributions subsequent to the measurement date	18,933	-
	<u>\$ 301,509</u>	<u>\$ (130,493)</u>

The District's contributions subsequent to the measurement date, \$18,933 for non-hazardous duty employees 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 will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31,	Net Deferral
2021	\$ 40,528
2022	47,723
2023	33,940
2024	32,090
2025	(2,198)
Thereafter	-
	<u>\$ 152,083</u>

Actuarial Assumptions

The total OPEB liability as of December 31, 2020 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2020, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018
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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2020 and 2019
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Amortization method	Level percentage of payroll
Amortization period	25 years, closed
Payroll growth rate	2.00%
Investment rate of return	6.25%
Inflation	2.30%
Salary increases	3.30-11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set-back 1 year for females)
Investment rate of return	6.25%, net of pension plan expense, including inflation
Healthcare trend rates (Pre-65):	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare trend rates (Post-65):	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

Changes of Assumptions

The discount rates used to calculate the total OPEB liability decreased for all Funds. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 GASB No. 74 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

Plan Target Allocation

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

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

Asset Class	CERS Pensions (Haz & Non-Haz) Target Allocation	Long Term Expected Nominal Return
US equity	18.75%	4.50%
Non-US equity	18.75%	5.25%
Private equity	10.00%	6.65%
Specialty credit/high yield	15.00%	3.90%
Core bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real return	15.00%	3.95%
	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 5.34% for the non-hazardous plan and 5.69% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's 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 discount rates of 5.34% for the non-hazardous plan, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.34%	5.34%	6.34%
Net OPEB liability, non-hazardous	\$ 939,711	\$ 731,460	\$ 560,416

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 566,333	\$ 731,460	\$ 931,845

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

NOTE 10 – KENTUCKY PUBLIC EMPLOYEES DEFERRED COMPENSATION AUTHORITY

During 1999, the District approved employee participation in a deferred compensation plan administered by the Kentucky Public Employees' Deferred Compensation Authority (Authority). The Authority is authorized under KRS 18A.230-18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school, and university employees and employees of local political subdivisions that have elected to participate. The District has elected to participate in Plan II, authorized under Section 401(k) of the United States Internal Revenue Code. The plan is funded 100% by payroll deductions from those employees who have elected to participate. The District makes the payroll deduction and then forwards the funds to the Authority.

NOTE 11 – RELATED PARTY TRANSACTIONS

The staff of the Bullock Pen Water District operates the Grant County Sewer District as well. The District receives a management fee from the Grant County Sewer District for these services. This fee was \$173,514 and \$160,052 in 2020 and 2019, respectively. The District has \$19,665 in accounts receivable from Grant County Sanitary Sewer District at December 31, 2020. The Chairman of the Board of Commissioners and two other commissioners of the District serve on the boards of both the Bullock Pen Water District and the Grant County Sewer District.

NOTE 12 – ECONOMIC DEPENDENCY/CREDIT RISK

Bullock Pen Water District is a government agency operating with one office in Crittenden, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Grant, Boone, Kenton, Pendleton, and Gallatin Counties in Kentucky.

NOTE 13 – CONCENTRATIONS

The District has agreements to purchase water from the cities of Walton and Williamstown, Kentucky, the Northern Kentucky Water District, and the Boone County Water District.

NOTE 14 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 83 – *Certain Asset Retirement Obligations – FY 2020*

Statement No. 88 – *Certain Disclosures Related to Debt – FY 2020*

Statement No. 95 – *Postponement of Effective Dates of Authoritative Guidance – FY 2020*

NOTE 15 – FUTURE ACCOUNTING STANDARDS

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

Statement No. 84 – *Fiduciary Activities* – FY 2021

Statement No. 87 – *Leases* – FY 2022

Statement No. 89 – *Accounting for Interest Cost in Construction Projects* – FY 2021

Statement No. 90 – *Majority Equity Interests* – FY 2021

Statement No. 91 – *Conduit Debt Obligations* – FY 2023

Statement No. 92 – *Omnibus 2020* – FY 2022

Statement No. 93 – *Replacement of Interbank Offered Rates* – FY 2022

Statement No. 94 – *Public-Private and Public-Public Partnerships* – FY 2022

Statement No. 96 – *Subscription-Based Information Technology Arrangements* – FY 2022

Statement No. 97 – *Component Unit Criteria for IRS Section 457 Deferred Comp. Plans* – FY 2022

NOTE 16 – COVID-19 GLOBAL PANDEMIC

On January 30, 2020, the World Health Organization announced a global health emergency, later classified as a global pandemic, as a result of the COVID-19 outbreak. The outbreak and response have impacted financial and economic markets across the World and within the United States of America. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. The District's Management and Board continue to actively monitor the impact of the global pandemic on its financial condition, liquidity, operations, suppliers, and industry.

NOTE 17 – SUBSEQUENT EVENTS

Management has considered subsequent events through May 25, 2021, which represents the date financial statements were available to be issued. The District did not have any events subsequent to December 31, 2020 through May 25, 2021 to disclose.

BULLOCK PEN WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - NON-HAZARDOUS
Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Proportion of net pension liability	0.03030%	0.02962%	0.02981%	0.02981%	0.02914%	0.028610%				
Proportionate share of the net pension liability (asset)	\$ 2,324,062	\$ 2,083,117	\$ 1,831,050	\$ 1,744,695	\$ 1,434,946	\$ 1,230,260				
Covered payroll in year of measurement (July - June)	\$ 780,408	\$ 747,119	\$ 745,154	\$ 725,718	\$ 695,170	\$ 657,389				
Share of the net pension liability (asset) as a percentage of its covered payroll	297.80%	278.82%	245.73%	240.41%	206.42%	187.14%				
Plan fiduciary net position as a percentage of total pension liability	47.81%	50.45%	53.54%	55.50%	59.97%	66.80%				

Schedule of the District's Pension Fund Contributions
County Employees' Retirement System (CERS)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 152,767	\$ 135,077	\$ 115,310	\$ 101,240	\$ 82,800	\$ 85,431	\$ 89,218			
Actual contribution	\$ 152,767	\$ 135,077	\$ 115,310	\$ 101,240	\$ 82,800	\$ 85,431	\$ 89,218			
Contribution deficiency (excess)	-	-	-	-	-	-	-			
Covered payroll in District's fiscal year (Jan. - Dec.)	\$ 791,539	\$ 759,365	\$ 751,353	\$ 738,397	\$ 702,547	\$ 681,485	\$ 658,224			
Contributions as a percentage of covered payroll	19.30%	17.79%	15.35%	13.71%	11.79%	12.54%	13.55%			

Notes to Required Supplementary Information
for the Year Ended December 31, 2020

The net pension liability as of December 31, 2020, is based on the June 30, 2020, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 9 in the Notes to the Financial Statements.

BULLOCK PEN WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE - NON-HAZARDOUS
Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employees' Retirement System (CERS)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Proportion of net OPEB liability	0.03029%	0.029610%	0.030060%							
Proportionate share of the net OPEB liability (asset)	\$ 731,460	\$ 498,044	\$ 533,780							
Covered payroll in year of measurement (July - June)	\$ 780,408	\$ 747,119	\$ 745,154							
Share of the net OPEB liability (asset) as a percentage of its covered payroll	93.73%	66.66%	71.63%							
Plan fiduciary net position as a percentage of total OPEB liability	51.67%	60.44%	57.62%							

Schedule of the District's OPEB Fund Contributions
County Employees' Retirement System (CERS)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 37,677	\$ 38,010	\$ 37,410	\$ 36,647						
Actual contribution	\$ (37,677)	\$ (38,010)	\$ (37,410)	\$ (36,647)						
Contribution deficiency (excess)	-	-	-	-						
Covered payroll in District's fiscal year (Jan. - Dec.)	\$ 791,539	\$ 759,365	\$ 751,353	\$ 738,397						
Contributions as a percentage of covered payroll	4.76%	5.01%	4.98%	4.96%						

Notes to Required Supplementary Information
for the Year Ended December 31, 2020

The net OPEB liability as of December 31, 2020, is based on the June 30, 2020, actuarial valuation. The changes to the elements of the OPEB expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 9 in the Notes to the Financial Statements.

BULLOCK PEN WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2020 and 2019
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	<u>2020</u>	<u>2019</u>
Operations, maintenance and administrative expenses		
Salaries and wages - employees	\$ 836,158	\$ 800,969
Employee pension and benefits	508,095	474,869
Advertising	644	9
Bad debt expense	23,157	31,154
Chemicals	52,700	54,422
Commissioners' fees	13,200	12,400
Contractual services - accounting	51,329	52,928
Contractual services - engineering	11,408	9,520
Contractual services - legal	16,565	14,276
Contractual services - management	2,155	2,104
Contractual services - water test	20,181	20,016
Contractual services - other	109,260	96,756
Insurance - general liability	19,194	18,420
Insurance - other	1,884	2,137
Insurance - vehicle	7,799	8,102
Insurance - workers' compensation	8,716	10,218
Materials and supplies	180,751	352,099
Miscellaneous	1,022	1,667
Payroll taxes	63,173	61,108
Purchased power	81,049	88,510
Rental of property and equipment	2,779	3,856
Transportation	18,930	26,141
Utility regulatory assessment	8,236	8,521
	<u>8,236</u>	<u>8,521</u>
Total operations, maintenance and administrative expenses	<u>\$ 2,038,385</u>	<u>\$ 2,150,202</u>

**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
Bullock Pen Water District**

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 Bullock Pen Water District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Bullock Pen Water District's basic financial statements, and have issued our report thereon dated May 25, 2021.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Bullock Pen 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bullock Pen Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Bullock Pen 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bullock Pen 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 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 audits, 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.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.
Certified Public Accountants
Erlanger, Kentucky
May 25, 2021