

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

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JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Caldwell County Water District
Princeton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Caldwell County Water District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

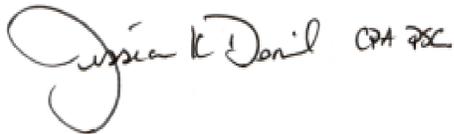
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedules of pension and OPEB contributions, and schedules of proportionate share of net pension and OPEB liabilities on pages 3 through 7 and 34 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 22, 2021, on our consideration of the Caldwell County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Caldwell County Water District's internal control over financial reporting and compliance.

Handwritten signature of Jessica K. Daniel, CPA, FSC. The signature is written in cursive and includes the initials "CPA FSC" to the right of the name.

Eddyville, Kentucky
June 22, 2021

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

The Caldwell County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2020. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources of the District exceed its total liabilities and deferred inflows of resources at December 31, 2020, by \$6,256,891 (Net Position). Of this amount, \$202,059 represents the unrestricted net position.
- The District's net position increased by \$214,060.
- The District's 2020 operating revenues of \$1,342,982 increased \$6,707, and operating expenses for 2020 of \$1,130,351 increased \$33,400. Non-operating income for 2020 consisted of interest income of \$1,188 and proceeds from the disposal of assets \$4,676. Capital contributions consisted of tap on fees totaling \$14,780.
- The District received grant income of \$83,286 for the highway 139 project. The total Delta Regional Authority grant was \$137,866.
- The District's unrestricted cash available for operating expenses was \$832,955 at December 31, 2020.
- The District's investment in capital assets was \$8,045,717 net of depreciation at December 31, 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Statement of net position. The statement of net position presents the financial position of the District. It presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 8.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 9 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 10.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 11-32 of this report.

Supplementary Information. In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 34-41.

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$6,256,891 as of December 31, 2020.

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

CALDWELL COUNTY WATER DISTRICT'S NET POSITION

	2020	2019
Assets		
Current and other assets	\$ 1,777,773	\$ 1,620,432
Capital assets	8,045,716	8,121,429
Total Assets	9,823,489	9,741,861
Deferred Outflows of Resources	137,007	174,716
Liabilities		
Other liabilities	170,010	169,561
Current portion of long-term debt	101,000	29,500
Long-term liabilities	3,085,576	3,346,417
Total Liabilities	3,356,586	3,545,478
Deferred Inflows of Resources	347,020	351,454
Net Position		
Net investment in capital assets	5,371,167	5,340,050
Restricted	683,665	682,719
Unrestricted	202,059	33,044
Total Net Position	\$ 6,256,891	\$ 6,055,813

The largest portion of the District's net position (85.8%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies, mapping, and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (9.8%) represents resources that are subject to external restriction (debt service) on how they may be used. The unrestricted net position is \$202,059.

Analysis of the District's Operations – Overall the District had a increase in net position of \$214,060.

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

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

	2020	2019
Revenues		
Operating revenues	\$ 1,342,982	\$ 1,348,444
Investment income	1,188	646
Grant income	83,286	46,803
Gain (loss) from disposal of assets	4,676	-
Capital contributions	14,780	19,060
Total Revenues	1,446,912	1,414,953
Expenses		
Source of supply purchases	335,148	320,661
Administrative and general expenses	303,255	302,655
Depreciation and amortization	234,537	232,485
Transmission and distribution expenses	220,324	204,429
Interest on debt and other	102,501	127,585
Payroll and other taxes	16,347	16,492
Customer accounts expenses	12,909	11,549
Water treatment	7,951	9,572
Bad debts	(120)	(892)
Total Expenses	1,232,852	1,224,536
Change in Net Position	214,060	190,417
Net Position - January 1, restated	6,042,831	5,865,396
Net Position - December 31	\$ 6,256,891	\$ 6,055,813

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

Overall, the District's financial position is consistent with the previous year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget passed by the board anticipated an increase in the fund balance of \$23,591. The District passed an amended budget that reported an increase in fund balance of \$75,827. The actual operating revenue received exceeded the final budgeted revenue by \$12,509. Final budgeted expenditures exceeded actual expenditures by \$109,520. The budgetary figures and actual amounts are reported in the supplementary information on page 34 .

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets for business-type activities as of December 31, 2020, amounts to \$8,045,717 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure.

	2020	2019
Business-type activities		
Capital assets, not being depreciated		
Land	\$ 9,000	\$ 9,000
Construction in progress	-	46,803
Total capital assets, not being depreciated	9,000	55,803
Capital assets, being depreciated		
Transmission and distribution mains	7,010,981	7,049,297
Maters and installation	285,612	268,303
Office furniture and equipment	7,373	2,962
Communication equipment	137	413
Vehicles and equipment	133,421	158,482
Hydrants	38,256	39,641
Power operated equipment	-	-
Structures and improvements	182,386	150,681
Distribution and reservoirs	208,187	216,198
Water treatment equipment	84,566	88,090
Shop and garage equipment	15,348	12,441
Pumping equipment	70,450	79,118
Total capital assets, being depreciated	8,036,717	8,065,626
Business-type activities capital assets, net	\$ 8,045,717	\$ 8,121,429

During the year ended December 31, 2020, the District acquired assets totaling \$158,824. These new assets consisted of new meter sets, new equipment, computers, and the completion of the highway 139 project.

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

Long-term and other debt

At the end of the current year, the Caldwell County Water District had total debt of \$2,674,550. Long-term debt at December 31, 2020, was as follows:

	<u>2020</u>	<u>2019</u>
Waterworks revenue series 1999	\$ 557,000	\$ 575,500
Waterworks revenue series 2004	482,000	493,000
KACO Lease	1,525,000	1,595,000
KACO Lease Premium	<u>110,550</u>	<u>117,879</u>
Total	<u>\$ 2,674,550</u>	<u>\$ 2,781,379</u>

Interest expense of \$102,501 was incurred during the year ended December 31, 2020.

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

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Caldwell County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Jimmy Littlefield, CEO, Caldwell County Water District, 118 West Market Street, Princeton, KY 42445.

Caldwell County Water District
Statement of Net Position
December 31, 2020

Assets

Current Assets

Cash equivalents	\$ 832,955
Customer accounts receivable (less allowance for uncollectible accounts of \$23,393)	117,865
Unbilled revenue	84,282
Inventory	39,242
Prepayments	19,764
Restricted assets	
Cash equivalents	67,457
Investments	616,208
Total Current Assets	<u>1,777,773</u>

Noncurrent Assets

Capital assets, net of depreciation	<u>8,045,717</u>
Total noncurrent liabilities	<u>8,045,717</u>
Total Assets	<u>9,823,490</u>

Deferred Outflows of Resources

Related pensions and other postemployment benefits	<u>137,007</u>
Total Assets and Deferred Outflows of Resources	<u>9,960,497</u>

Liabilities

Current Liabilities

Trade accounts payable	46,421
Accrued liabilities	38,127
Accrued interest on debt	18,993
Customers' deposits	66,469
Long-term debt due in one year	<u>101,000</u>
Total Current Liabilities	<u>271,010</u>

Noncurrent Liabilities

Long-term debt due after one year	2,463,000
Net pension and other postemployment benefits liabilities	<u>622,576</u>
Total Noncurrent Liabilities	<u>3,085,576</u>
Total Liabilities	<u>3,356,586</u>

Deferred Inflows of Resources

Related to pensions and other post-employment benefits	236,470
Related to debt	<u>110,550</u>
Total Deferred Inflows of Resources	<u>347,020</u>
Total Liabilities and Deferred Inflows of Resources	<u>3,703,606</u>

Net Position

Net investment in capital assets	5,371,167
Restricted for	
Debt service	616,208
Customer deposits	66,469
Capital projects	988
Unrestricted	<u>202,059</u>
Total Net Position	<u>\$ 6,256,891</u>

See accompanying notes and accountant's report.

Caldwell County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2020

<u>Operating Revenue</u>	
Water revenues	\$ 1,331,398
Other	<u>11,584</u>
Total Operating Revenues	<u>1,342,982</u>
<u>Operating Expenses</u>	
Source of supply purchases	335,148
Administrative and general expenses	303,255
Depreciation	234,537
Transmission and distribution expenses	220,324
Payroll and other taxes	16,347
Customer accounts expenses	12,909
Water treatment	7,951
Bad debts	<u>(120)</u>
Total Operating Expenses	<u>1,130,351</u>
<u>Operating Income (Loss)</u>	<u>212,631</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	1,188
Grant income	83,286
Interest on debt	(102,501)
Gain (loss) on disposal of assets	<u>4,676</u>
Total Nonoperating Revenue (Expenses)	<u>(13,351)</u>
<u>Net Income Before Capital Contributions</u>	199,280
<u>Capital Contributions</u>	<u>14,780</u>
<u>Change in Net Position</u>	214,060
<u>Net Position-Beginning of Year</u>	6,055,812
<u>Prior period adjustments (See Note 14)</u>	<u>(12,981)</u>
<u>Net Position-End of Year</u>	<u>\$ 6,256,891</u>

See accompanying notes and accountant's report.

Caldwell County Water District
Statement of Cash Flows
For the Year Ended December 31, 2020

<u>Cash Flows From Operating Activities</u>	
Cash received from customers	\$ 1,328,629
Cash payments to suppliers for goods and services	(598,648)
Cash payments to employees for services	(334,673)
Net Cash Provided By Operating Activities	<u>395,308</u>
<u>Cash Flows From Capital and Related Financing Activities</u>	
Principal paid on capital debt	(99,500)
Contributed capital	14,780
Acquisition of property, plant, and equipment	(194,324)
Proceeds from grants	119,450
Proceeds from the disposal of assets	4,676
Interest paid on debt	(103,028)
Net Cash Used by Capital and Related Financing Activities	<u>(257,946)</u>
<u>Cash Flows From Investing Activities</u>	
Income received on investments	585
Sale of investment securities	211,475
Purchase of investment securities	(241,748)
Net Cash Used By Investing Activities	<u>(29,688)</u>
<u>Net Increase (Decrease) in Cash Equivalents</u>	107,674
<u>Cash Equivalents-Beginning of Year</u>	<u>792,738</u>
<u>Cash Equivalents-End of Year</u>	<u><u>\$ 900,412</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided</u>	
<u>By Operating Activities</u>	
Operating Income (Loss)	\$ 212,631
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	234,537
Change in assets and liabilities	
Accounts receivable	(20,602)
Inventory	2,091
Prepayments	(279)
Deferred outflows of resources	37,709
Accounts payable	9,106
Customer deposits	6,249
Accrued liabilities	8,141
Deferred pension and OPEB liabilities	(89,841)
Deferred inflows of resources	(4,434)
Net Cash Provided By Operating Activities	<u>\$ 395,308</u>
<u>Reconciliation of Total Cash</u>	
Current Assets - Cash	\$ 832,955
Restricted Assets - Cash	67,457
Total Cash	<u><u>\$ 900,412</u></u>

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

See accompanying notes and accountant's report.

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

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

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

Principles Determining Scope of Reporting Entity

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

Basis of Presentation

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

Proprietary Fund Types

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

Measurement Focus/Basis of Accounting

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

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

Reclassifications

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

Budget

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

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

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

Cash Equivalents/ Investments

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

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

Prepaid Items

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

Post Employment Benefits

Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

Capital Assets

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

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

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

Transmission and Distribution Equipment	20 to 65 years
Furniture, Machinery, and Equipment	5 to 10 years
Leasehold Improvements	15 to 25 years
Vehicles	3 to 5 years

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on an analysis of receivables outstanding more than 120 days. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the December 31, 2019 accounts receivable.

Unearned Revenue

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

Inventory

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

Restricted Assets

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. See Note 4 for information describing restricted assets.

Estimates

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

Risk Management

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

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

Pensions and Other Postemployment Benefits

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

Net Position

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

Deferred Inflows of Resources: In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

A deferred inflow from pensions and other postemployment benefits results from net differences between expected and actual earnings on pension plan investments. This amount is deferred and will be recognized as a reduction of pension expense over the next four years.

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

Adoption of New Accounting Pronouncements

GASB Statement No. 91

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

Recent Accounting Pronouncements

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

GASB Statement No. 92

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

- The effective date of Statement No. 87, *Leases, and Implementation Guide No 2019-3, Leases*, for interim financial reports, the requirements related to this section were effective upon issuance.
- Reporting intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. This is effective for fiscal years beginning after June 15, 2020.
- The applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended to reporting assets accumulated for postemployment benefits. This is effective for fiscal years beginning after June 15, 2020.
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements. This is effective for fiscal years beginning after June 15, 2020.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition. This is effective for fiscal years beginning after June 15, 2020.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.

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- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

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

GASB Statement No. 93

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

GASB Statement No. 94

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

GASB Statement No. 96

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

Subsequent Events

The District has evaluated subsequent events through June 22, 2021, the date which the financial statements were available to be issued.

2. LEGAL COMPLIANCE

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2020.

3. DEPOSITS AND INVESTMENTS

1. Net Position

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

	<u>Cash on Hand</u>	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 550	\$ 832,405	\$ -	\$ 832,955
Restricted assets				
Cash equivalents	-	67,457	-	67,457
Investments	-	<u>616,208</u>	-	<u>616,208</u>
Total	<u>\$ 550</u>	<u>\$ 1,516,070</u>	<u>\$ -</u>	<u>\$ 1,516,620</u>

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2. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions were \$1,516,620, and the bank balances were \$1,548,397. Of the bank balances, the federal depository insurance corporation (FDIC) covers deposit accounts totaling \$251,632. The remaining balance of \$1,296,765 was covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

3. Investments

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Identification

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

Investment	Maturities	Fair Value
Certificates of Deposit:		
First Southern National Bank	07/05/2021	\$ 392,967
First Southern National Bank	07/05/2021	<u>223,241</u>
Total Investments		<u>\$ 616,208</u>

4. RESTRICTED NET POSITION

Restricted Net Assets

	Debt Retirement				Total
	Depreciation Fund	Sinking Fund	Water Projects	Customer Deposits	
Cash equivalents	\$ -	\$ -	\$ 988	\$ 66,469	\$ 67,457
Investments					
Certificates of deposit	<u>392,967</u>	<u>223,241</u>	<u>-</u>	<u>-</u>	<u>616,208</u>
Totals	<u>\$ 392,967</u>	<u>\$ 223,241</u>	<u>\$ 988</u>	<u>\$ 66,469</u>	<u>\$ 683,665</u>

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Restricted Cash for Debt Retirement

The Caldwell County Water District Bonds (All Series) require the District establish a Sinking Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve month period on all of the outstanding bonds. The District has been making the required monthly deposits of \$17,994 to service the outstanding debt. At December 31, 2020, the balance of the Sinking Reserve was \$223,241.

The Bonds also required that a Depreciation Account be funded monthly. The 1999 Series Bonds require that amounts be deposited over the life of the Bonds. The remaining series require the Depreciation Fund be funded until the balance reaches certain amounts with the maximum amount being \$79,800. The District is funding the Depreciation Fund monthly as required, depositing \$2,061 per month. At December 31, 2020, the balance of the Depreciation Fund was \$392,967.

The District maintains a water project account for use when special projects are being funded. At December 31, 2020, that balance was \$988. There were no special projects in process.

Caldwell County Water District
Notes to the Financial Statements
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5. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 9,000	\$ -	\$ -	\$ 9,000
Construction in progress	46,803	-	(46,803)	-
Total capital assets, not being depreciated	<u>55,803</u>	<u>-</u>	<u>(46,803)</u>	<u>9,000</u>
Capital assets, being depreciated:				
Transmission and distribution mains	12,516,643	130,090	-	12,646,733
Meters and installation	429,075	25,837	-	454,912
Office furniture and equipment	58,204	5,991	-	64,195
Communication equipment	16,380	-	-	16,380
Vehicles and equipment	304,402	-	(19,951)	284,451
Hydrants	83,083	-	-	83,083
Power operated equipment	131,918	-	-	131,918
Structures and improvements	296,167	39,652	-	335,819
Distributions and reservoirs	482,758	-	-	482,758
Water treatment equipment	123,328	-	-	123,328
Shop and garage equipment	30,912	4,058	-	34,970
Pumping equipment	177,177	-	-	177,177
Total capital assets, being depreciated	<u>14,650,047</u>	<u>205,628</u>	<u>(19,951)</u>	<u>14,835,724</u>
Less accumulated depreciation for:				
Transmission and distribution mains	(5,467,346)	(168,406)	-	(5,635,752)
Meters and installation	(160,772)	(8,528)	-	(169,300)
Office furniture and equipment	(55,242)	(1,580)	-	(56,822)
Communication equipment	(15,967)	(276)	-	(16,243)
Vehicles and equipment	(145,920)	(25,061)	19,951	(151,030)
Hydrants	(43,442)	(1,385)	-	(44,827)
Power operated equipment	(131,918)	-	-	(131,918)
Structures and improvements	(145,486)	(7,947)	-	(153,433)
Distributions and reservoirs	(266,560)	(8,011)	-	(274,571)
Water treatment equipment	(35,238)	(3,524)	-	(38,762)
Shop and garage equipment	(18,471)	(1,151)	-	(19,622)
Pumping equipment	(98,059)	(8,668)	-	(106,727)
Total accumulated depreciation	<u>(6,584,421)</u>	<u>(234,537)</u>	<u>19,951</u>	<u>(6,799,007)</u>
Total capital assets, being depreciated, net	<u>8,065,626</u>	<u>(28,909)</u>	<u>-</u>	<u>8,036,717</u>
Business-type activities capital assets, net	<u>\$ 8,121,429</u>	<u>\$ (28,909)</u>	<u>\$ (46,803)</u>	<u>\$ 8,045,717</u>

Depreciation charged to income was \$234,537.

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

6. DEBT OBLIGATIONS

Revenue Bonds Payable

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2020</u>	<u>Due in One Year</u>
Revenue Bonds Payable				
USDA: Series 1999	3.25%	2039	\$ 557,000	19,000
USDA: Series 2004	4.125%	2044	482,000	12,000
KACO: Series 2019E	2.738%	2036	<u>1,525,000</u>	<u>70,000</u>
Total			2,564,000	<u>\$ 101,000</u>
Less current portion			<u>(101,000)</u>	
Long-term portion			<u>\$ 2,463,000</u>	

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest & Fees</u>	<u>Total</u>
2020	\$ 101,000	\$ 116,640	\$ 217,640
2021	107,000	111,565	218,565
2022	114,000	106,165	220,165
2023	120,000	100,440	220,440
2024	122,000	94,390	216,390
2025-2029	709,000	373,376	1,082,376
2030-2034	892,000	201,276	1,093,276
2035-2039	280,000	61,751	341,751
2040-2044	<u>119,000</u>	<u>12,225</u>	<u>131,225</u>
Total	<u>\$ 2,564,000</u>	<u>\$ 1,177,828</u>	<u>\$ 3,741,828</u>

Information on individual debt instruments follows:

Series 1993

During 1993, Caldwell County Water District adopted a resolution to issue \$410,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1993 dated October 22, 1993 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$205 per month until there is accumulated an amount of at least \$24,600. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

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Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 5.0% is paid each January 1 and July 1. This bond was refinanced through a Kentucky Association of Counties lease on December 5, 2019.

Series 1996

During 1996, Caldwell County Water District adopted a resolution to issue \$900,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1996 dated November 12, 1996 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$611 per month until there is an accumulated amount of at least \$79,800. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 4.875% is paid each January 1 and July 1. This bond was refinanced through a Kentucky Association of Counties lease on December 5, 2019.

Series 1999

During 1999, Caldwell County Water District adopted a resolution to issue \$800,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1999 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$370 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 3.250% is paid each January 1 and July 1.

Series 1999

During 1999, Caldwell County Water District adopted a resolution to issue \$420,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2000 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$205 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

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The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.375% is paid each January 1 and July 1. This bond was refinanced through a Kentucky Association of Counties lease on December 5, 2019.

Series 2003

During 2004, Caldwell County Water District adopted a resolution to issue \$815,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2003 dated June 17, 2004 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$390 per month until there is accumulated in the Depreciation Fund the sum of at least \$46,800. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.375% is paid each January 1 and July 1. This bond was refinanced through a Kentucky Association of Counties lease on December 5, 2019.

Series 2004

During 2005, Caldwell County Water District adopted a resolution to issue \$600,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2004 dated September 27, 2005 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$280 per month until there is accumulated in the Depreciation Fund the sum of at least \$33,600. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.125% is paid each January 1 and July 1.

KACO Lease Payable

On December 5, 2019, the District entered into a lease agreement with Kentucky Association of Counties Finance Corporation to issue Revenue Bonds 2019 First Series E. The proceeds were used to refinance the 1993, 1996, 2000, and 2002 USDA Refunding Bonds. The new bonds were issued for \$1,690,000, carry an interest rate range of 3.00% - 5.00%, and mature February 1, 2036. The bonds were issued with a lease premium of \$118,490, which will be recognized over the life of the bond.

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

Changes in Business-Type Activities Debt

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

	<u>Balance 12/31/2019</u>	<u>Proceeds</u>	<u>Principal Payments</u>	<u>Balance 12/31/2020</u>	<u>Due Within One Year</u>
<u>Business-Type Activities:</u>					
Revenue Bonds Payable	\$ 1,068,500	\$ -	\$ 29,500	\$ 1,039,000	\$ 31,000
Lease Payable	1,595,000	-	70,000	1,525,000	70,000
Lease Premium	<u>117,879</u>	<u>-</u>	<u>7,329</u>	<u>110,550</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 2,781,379</u>	<u>\$ -</u>	<u>\$ 106,829</u>	<u>\$ 2,674,550</u>	<u>\$ 101,000</u>

Total interest paid for the year ended December 31, 2020 was \$102,501.

7. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

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

	<u>Balance 12/31/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2020</u>
Pensions				
Deferred outflows of resources:				
<i>Deferred pension contributions</i>	\$ 15,768	\$ 19,014	\$ (15,768)	\$ 19,014
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	26,615	-	(26,615)	-
<i>Differences between expected and actual experience</i>	14,680	-	(2,871)	11,809
<i>Change in assumptions</i>	58,192	-	(39,701)	18,491
<i>Difference between projected and actuarial earnings</i>	<u>11,037</u>	<u>9,489</u>	<u>-</u>	<u>20,526</u>
<i>Pension related deferred outflows</i>	<u>\$ 126,292</u>	<u>\$ 28,503</u>	<u>\$ (84,955)</u>	<u>\$ 69,840</u>
Deferred inflows of resources:				
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	\$ 106,864	\$ 21,240	\$ -	\$ 128,104
<i>Differences between expected and actual experience</i>	2,429	-	(2,429)	-
<i>Difference between projected and actuarial earnings</i>	<u>20,305</u>	<u>-</u>	<u>(11,628)</u>	<u>8,677</u>
<i>Pension related deferred inflows</i>	<u>\$ 129,598</u>	<u>\$ 21,240</u>	<u>\$ (14,057)</u>	<u>\$ 136,781</u>

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Other Post-employment Benefits (OPEB)

Deferred outflows of resources:

<i>Deferred OPEB contributions</i>	\$ 3,889	\$ 4,690	\$ (3,889)	\$ 4,690
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	-	-	-	-
<i>Subsidy</i>	2,952	706	-	3,658
<i>Difference between projected and actuarial experience</i>	905	23,996	-	24,901
<i>Change in assumptions</i>	40,678	-	(14,755)	25,923
<i>Difference between projected and actuarial earnings</i>	<u>-</u>	<u>7,995</u>	<u>-</u>	<u>7,995</u>
<i>OPEB related deferred outflows</i>	<u>\$ 48,424</u>	<u>\$ 37,387</u>	<u>\$ (18,644)</u>	<u>\$ 67,167</u>

Deferred inflows of resources:

<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	\$ 55,217	\$ 16,353	\$ -	\$ 71,570
<i>Differences between expected and actual experience</i>	7,011	17,909	-	24,920
<i>Change in assumptions</i>	272	-	(114)	158
<i>Difference between projected and actuarial earnings</i>	<u>41,477</u>	<u>-</u>	<u>(38,436)</u>	<u>3,041</u>
<i>OPEB related deferred inflows</i>	<u>\$ 103,977</u>	<u>\$ 34,262</u>	<u>\$ (38,550)</u>	<u>\$ 99,689</u>

8. EMPLOYEES' RETIREMENT PLAN

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

County Employees' Retirement System

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

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

Caldwell County Water District
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Nonhazardous members

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

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

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

Employers contribute at the rate determined by the CERS Board to be necessary for the actuarial soundness of the District, as required by KRS 61.565 and 61.752. The District's required contribution rate for non-hazardous employees was 19.30% for the period January 1, 2020 to June 30, 2020; and 19.30% for the period July 1, 2020 to December 31, 2020.

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

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At December 31, 2020, the District reported a liability of \$473,541 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 District's proportion of the net pension liability was based on a projection of the District's share of contributions to CERS relative to the total contributions of all participating employers, actuarially determined. At June 30, 2020, the District's proportion was .006174%.

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expenses of negative \$4,620 for the year ended December 31, 2020. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ 11,809	\$ -
Net differences between projected and actual investment earnings	20,526	8,677
Change of assumption	18,491	-
Changes in proportion and differences between employer contributions and share of contributions	-	128,104
Contributions subsequent to the measurement date	<u>19,014</u>	<u>-</u>
Totals	<u>\$ 69,840</u>	<u>\$ 136,781</u>

Deferred Outflows of Resources. The \$19,014 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	
December 31, 2021	\$ (57,861)
December 31, 2022	(33,031)
December 31, 2023	178
December 31, 2024	<u>4,759</u>
Total	<u>\$ (85,955)</u>

Actuarial assumptions. 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 to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

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

Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Investment rate of return	6.25% net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

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

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

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

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

Discount Rate. The discount rate used to measure the total pension liability for the plan was 6.25% for non-hazardous employees. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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

	1% Decrease <u>5.25%</u>	Current Discount Rate 6.25%	1% Increase <u>7.25%</u>
The District's proportionate share of the net pension liability	\$ 583,979	\$ 473,541	\$ 382,094

Payables to the pension plan. At December 31, 2020, the financial statements include \$4,409 in contractually required employee and employer contributions primarily for the month ended December 31, 2020. The obligation was paid within prescribed time limits.

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

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

Other Postemployment Benefit Plan (OPEB)

CERS Medical Insurance Plan

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

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

Contributions. Per Kentucky Revised Statutes 78.545 (33), contribution requirements are established and may be amended by the KRS Board. The District's required contribution rate for non-hazardous employees was 4.76% for the period January 1, 2020 to June 30, 2020; and 4.76% for the period July 1, 2020 to December 31, 2020.

OPEB Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources. At December 31, 2020, the District reported a net OPEB liability of \$149,035 for its proportionate share of the CERS net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020. At June 30, 2020, the District's proportion was .006172% for nonhazardous classified employees.

For the year ended December 31, 2020, the District recognized OPEB expense of \$675. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected & actual earnings on pension plan investments	\$ 24,901	\$ 24,920
Changes of assumptions	25,923	158
Net difference between projected and actual earnings on plan investments	7,995	3,041
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	71,570
Contributions subsequent to the measurement date, including implicit subsidy	<u>8,348</u>	<u>-</u>
Totals	<u>\$ 67,167</u>	<u>\$ 99,689</u>

The \$8,348 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and the December 31, 2020 implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2021.

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

Fiscal Year Ending June 30,	
2021	\$ (11,340)
2022	(9,874)
2023	(12,641)
2024	(5,918)
2025	(1,097)
Thereafter	-
	<u>\$ (40,870)</u>

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

Inflation	2.30%
Payroll Growth Rate	2.00% CERS Non-hazardous
Salary Increase	3.30% - 11.55%, varies by service
Investment Rate of Return	6.25% net of plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 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.

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

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

Discount Rate. The single discount rate of 5.34% for CERS non-hazardous is based on the long-term expected rate of return on OPEB plan investments of 6.25% and a long-term municipal bond rate of 2.45% as reported in Fidelity Index's "2-Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Implicit Subsidy. The fully-insured premiums KRS pays for the KERS, CERS, and SPRS Health Insurance Plans are blended rates based on the combined experience of the active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employees should adjust their contributions by the implicit subsidy in order to determine the total employer contributions for GASB 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after measurement date. The District's implicit subsidy for the year ended December, 31, 2020 was \$968.

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

	1% Decrease	Current Discount Rate	1% Increase
	4.34%	5.34%	6.34%
The District's proportionate share of the net OPEB liability	\$ 191,466	\$ 149,035	\$ 114,185

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate. The following presents the Board's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as, what the Service's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than

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

the current rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The District's proportionate share of the net OPEB liability	\$ 115,390	\$ 149,035	\$ 189,864

9. COMMITMENTS

Purchase Contracts

South Hopkins Water District

On March 3, 2004, the District entered into a long-term contract with South Hopkins Water District for the purchase of treated water. The contract for water is for a period of 40 years and calls for water sales not to exceed 250,000 gallons per month and not to exceed 15,000 gallons in any 24-hour period unless an emergency exists. The rate is equal to the cost of water from Dawson Springs, plus amortization of supply facilities (\$0.12 per 1,000 gallons), plus additional plumbing costs, plus 25%. Effective July 12, 2019 the rate changed to \$3.16 per 1,000 gallons. Payment is due by the 20th of each month. The District purchased \$2,525 from South Hopkins Water District during the year ended December 31, 2020.

Princeton Water & Wastewater

On October 11, 2002, the District entered into a long-term contract with Princeton Water & Wastewater for the purchase of treated water. The contract for water is for a period of 45 years and calls for water sales not to exceed 12 million gallons per month. The rate increased on July 22, 2020 to \$2.44 per 200 cubic feet. Payment is due by the 15th of each month. The District purchased \$332,623 from Princeton Water & Wastewater during the year ended December 31, 2020.

Caldwell County Fiscal Court

On April 8, 2010, the District entered into a lease agreement with the Caldwell County Fiscal Court to lease the premises located at 118 W. Market Street. The term of this lease is for ten (10) years, ending on March 31, 2020, subject however to continuation of four (4) ten (10) year consecutive terms at the mutual agreement of both parties. There are no monetary terms associated with the lease; however, the District is responsible for taxes and insurance on the property.

10. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2019 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

11. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Caldwell County, Kentucky. For the year ended December 31, 2020, the revenues from these sources totaled \$1,331,398. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

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

12. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employees, with one (1) year continuous service, are entitled to vacation pay according to the following schedule:

1 to 3 years	1 week
3 to 10 years	2 weeks
10+ years	3 weeks

Employees must use vacation within the twelve month period after the time is earned. Upon termination of employment, an employee will be paid for all unused vacation leave. The liability for unused vacation time at December 31, 2020 was \$27,090.

The District's policy on sick pay states that employees will be granted one sick day per month. During the employee's probationary period sick leave may be earned but not taken. Sick leave is forfeited upon termination of employment. The District's policy is to recognize the cost of compensated medical leave when actually paid to employees.

13. LITIGATION

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

14. PRIOR PERIOD ADJUSTMENT

Correction of an error. On March 9, 2021, the Board voted to pay eleven weeks (440 hours) of vacation time in the form of an extra paycheck per month for eleven months. As of January 1, 2020, 520 of these hours should be accrued. An adjustment of \$12,981 was made to recognize the additional amount of vacation time accrued prior to the current fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Caldwell County Water District
Statement of Revenues, Expenses, and
Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Water revenues	\$ 1,291,963	\$ 1,291,963	\$ 1,331,398	\$ 39,435
Other	38,510	38,510	11,584	(26,926)
Total Operating Revenues	<u>1,330,473</u>	<u>1,330,473</u>	<u>1,342,982</u>	<u>12,509</u>
<u>Operating Expenses</u>				
Source of supply purchases	316,597	316,597	335,148	(18,551)
Administrative and general expenses	401,801	401,801	303,255	98,546
Depreciation	230,922	230,922	234,537	(3,615)
Transmission and distribution expenses	344,588	247,233	220,324	26,909
Payroll and other taxes	18,180	18,180	16,347	1,833
Customer accounts expenses	12,336	12,336	12,909	(573)
Water treatment	12,802	12,802	7,951	4,851
Bad debt expense	-	-	(120)	120
Total Operating Expenses	<u>1,337,226</u>	<u>1,239,871</u>	<u>1,130,351</u>	<u>109,520</u>
<u>Operating Income (Loss)</u>	<u>(6,753)</u>	<u>90,602</u>	<u>212,631</u>	<u>122,029</u>
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	645	645	1,188	543
Grant income	10,639	10,639	83,286	72,647
Interest on debt	-	(45,119)	(102,501)	(57,382)
Gain (loss) from disposal of assets	-	-	4,676	-
Total Nonoperating Revenue (Expenses)	<u>11,284</u>	<u>(33,835)</u>	<u>(13,351)</u>	<u>15,808</u>
<u>Net Income before Capital Contributions</u>	4,531	56,767	199,280	137,837
<u>Capital Contributions</u>	<u>19,060</u>	<u>19,060</u>	<u>14,780</u>	<u>(4,280)</u>
<u>Change in Net Position</u>	<u>\$ 23,591</u>	<u>\$ 75,827</u>	214,060	<u>\$ 133,557</u>
<u>Net Position-Beginning of Year</u>			6,055,812	
<u>Prior Period Adjustments (See Note 14)</u>			<u>(12,981)</u>	
<u>Net Position-End of Year</u>			<u>\$ 6,256,891</u>	

Caldwell County Water District
County Employee Retirement System
Schedule of the Proportionate Share
of the Net Pension Liability
As of December 31, 2020
Last Ten Years (1)

<u>Year Ended</u> <u>June 30</u>	<u>District's proportion</u> <u>of the net pension</u> <u>liability</u>	<u>District's</u> <u>proportionate share of</u> <u>the net pension</u> <u>liability (asset)</u>	<u>District's covered</u> <u>employee payroll</u>	<u>District's share of the</u> <u>net pension liability</u> <u>(asset) as a percentage</u> <u>of its covered</u> <u>employee payroll</u>	<u>Plan fiduciary net</u> <u>position as a</u> <u>percentage of the total</u> <u>pension liability</u>
<u>CERS Nonhazardous</u>					
2020	0.006174%	\$ 473,541	\$ 188,245	251.56%	47.81%
2019	0.008175%	574,951	196,087	293.21%	50.45%
2018	0.009120%	555,436	226,621	245.09%	53.54%
2017	0.012614%	738,336	246,805	299.16%	53.30%
2016	0.008170%	402,436	271,488	148.23%	55.50%
2015	0.008349%	358,949	193,784	185.23%	59.97%
2014	0.008651%	280,671	204,010	137.58%	66.80%

Note to Schedule:

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

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

Caldwell County Water District
County Employee Retirement System
Schedule of Pension Contributions
As of December 31, 2020
Last Ten Years

<u>Year Ended</u> <u>June 30</u>	<u>Contractually required</u> <u>contribution</u>	<u>Contributions relative</u> <u>to contractually</u> <u>required contribution</u>	<u>Contribution</u> <u>deficiency (excess)</u>	<u>District's covered</u> <u>employee payroll</u>	<u>Contributions as a</u> <u>percentage of covered</u> <u>employee payroll</u>
<i>CERS Nonhazardous</i>					
2020	\$ 36,333	\$ 36,333	\$ -	\$ 188,245	19.30% / 19.30%
2019	32,188	32,188	\$ -	196,087	16.22% / 19.30%
2018	40,279	40,279	\$ -	226,621	14.48% / 16.22%
2017	46,656	46,656	\$ -	246,805	13.95% / 14.48%
2016	48,864	48,864	\$ -	271,488	12.42% / 13.95%
2015	44,538	44,538	\$ -	193,784	12.75% / 12.42%
2014	48,420	48,420	\$ -	204,010	13.74% / 12.75%

Note to Schedule:

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

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

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

Note A - Changes of Assumptions:

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

2015:

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

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

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

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

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

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

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

2017:

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

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

2018:

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

2019:

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

2020:

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

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

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

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

Valuation date	June 30, 2018
Experience study	July 1, 2013 - June 30, 2018
Actual cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Payroll growth rate	2.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service for CERS
Investment rate of return	6.25%
Phase-In provision	Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018.

Note C - Changes in benefits:

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

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

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

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

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

Caldwell County Water District
County Employee Retirement System
Schedule of the Proportionate Share
of the Net OPEB Liability
As of December 31, 2020
Last Ten Years (1)

<u>Year Ended</u> <u>June 30</u>	<u>District's proportion</u> <u>of the net OPEB</u> <u>liability</u>	<u>District's</u> <u>proportionate share of</u> <u>the net OPEB liability</u> <u>(asset)</u>	<u>District's covered</u> <u>employee payroll</u>	<u>District's share of the</u> <u>net OPEB liability</u> <u>(asset) as a percentage</u> <u>of its covered</u> <u>employee payroll</u>	<u>Plan fiduciary net</u> <u>position as a</u> <u>percentage of the total</u> <u>OPEB liability</u>
<u>CERS Nonhazardous</u>					
2020	0.006172%	\$ 149,035	\$ 188,245	79.17%	51.67%
2019	0.008173%	137,466	196,087	70.10%	60.44%
2018	0.009119%	161,906	226,621	71.44%	57.62%
2017	0.012614%	253,585	246,805	102.75%	52.40%

Note to Schedule:

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

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

Caldwell County Water District
County Employee Retirement System
Schedule of OPEB Contributions
As of December 31, 2020
Last Ten Years

<u>Year Ended</u> <u>June 30</u>	<u>Contractually required</u> <u>contribution</u>	<u>Contributions relative</u> <u>to contractually</u> <u>required contribution</u>	<u>Contribution</u> <u>deficiency (excess)</u>	<u>District's covered</u> <u>employee payroll</u>	<u>Contributions as a</u> <u>percentage of covered</u> <u>employee payroll</u>
<u>CERS Nonhazardous</u>					
2020	\$ 8,959	\$ 8,959	\$ -	\$ 188,245	4.76% / 4.76%
2019	12,040	12,040	\$ -	196,087	5.26% / 4.76%
2018	13,054	13,054	\$ -	226,621	4.70% / 5.26%
2017	11,641	11,641	\$ -	246,805	4.73% / 4.70%

Note to Schedule:

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

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

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

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

Note A - Changes of Assumptions:

2017:

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

2018:

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

2019:

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

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

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

2020:

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

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

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

Valuation date	June 30, 2018
Experience study	July 1, 2008 - June 30, 2013
Actual cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service for CERS
Payroll growth rate	2.00%, CERS non-hazardous
Investment rate of return	6.25% net of plan investment expense, including inflation
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post-65	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-In provision	Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018.

Notes C - Changes of Benefits:

There were no changes to benefits for OPEB Plan.

OTHER SUPPLEMENTARY INFORMATION

Caldwell County Water District
Detail Schedule of Operating Expenses
For the Year Ended December 31, 2020

<u>Water purchases</u>	<u>\$ 335,148</u>
<u>General operating expenses</u>	
Legal & professional	84,171
Salaries & wages	79,070
Employee insurance	71,662
Utilities	20,549
Insurance	19,814
Fuel	8,341
Office supplies	7,300
Dues & subscriptions	3,914
License fees	3,493
Uniforms	3,232
Other contract services	3,105
Miscellaneous	1,844
Advertising	645
Travel	45
Bank charges	15
Retirement	<u>(3,945)</u>
Total general operating expenses	<u>303,255</u>
<u>Depreciation expense</u>	<u>234,537</u>
<u>Transmission and distribution expenses</u>	
Salaries & wages	139,076
Supplies & materials	26,447
Contract labor - meter reading	25,216
Repairs & maintenance	25,081
Tools and equipment	<u>4,504</u>
Total water expenses	<u>220,324</u>
<u>Payroll and other taxes</u>	<u>16,347</u>
<u>Customer accounts expenses</u>	
Postage	9,107
Credit card fees	3,730
Collection Fees	<u>72</u>
Total customer accounts expenses	<u>12,909</u>
<u>Water treatment</u>	
Chemicals	2,698
Testing	<u>5,253</u>
Total water treatment	<u>7,951</u>
<u>Bad debt expense</u>	<u>(120)</u>
<u>Total operating expenses</u>	<u>\$ 1,130,351</u>

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

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

To the Board of Commissioners
Caldwell County Water District
Princeton, 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 Caldwell County Water District, as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Caldwell County Water District's basic financial statements, and have issued our report thereon dated June 22, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

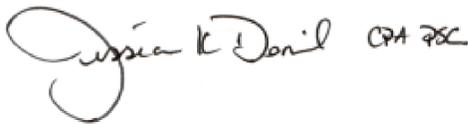
We also noted certain additional matters that we have reported to management of the Caldwell County Water District in a separate letter dated June 22, 2021.

Caldwell County Water District's Response to Findings

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

Purpose of this Report

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

Handwritten signature of Jessica K. Donil CPA FSC. The signature is written in cursive and includes the initials 'CPA FSC' to the right of the name.

Eddyville, Kentucky
June 22, 2021

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

2020-1 Segregation of Duties

Condition

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

Criteria

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

Effect

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

Cause

Lack of personnel.

Recommendation

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

Response

We agree with the finding and have put in place certain compensating controls to help alleviate exposure. A third party accounting firm assists in bookkeeping, payroll, and preparing monthly reports for Board review.