

CARROLL COUNTY WATER DISTRICT NO. 1

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

At December 31, 2020 and 2019

**CARROLL COUNTY WATER DISTRICT NO. 1
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Carroll County Water District No. 1
Ghent, Kentucky 41045

Report on the Financial Statements

We have audited the accompanying financial statements of Carroll County Water District No. 1 as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Carroll County Water District No. 1, as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the Table of Contents on pages 3 through 8, and pages 38 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 our report dated March 24, 2021, on our consideration of the Carroll County Water District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Carroll County Water District No. 1's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carroll County Water District No. 1's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 24, 2021

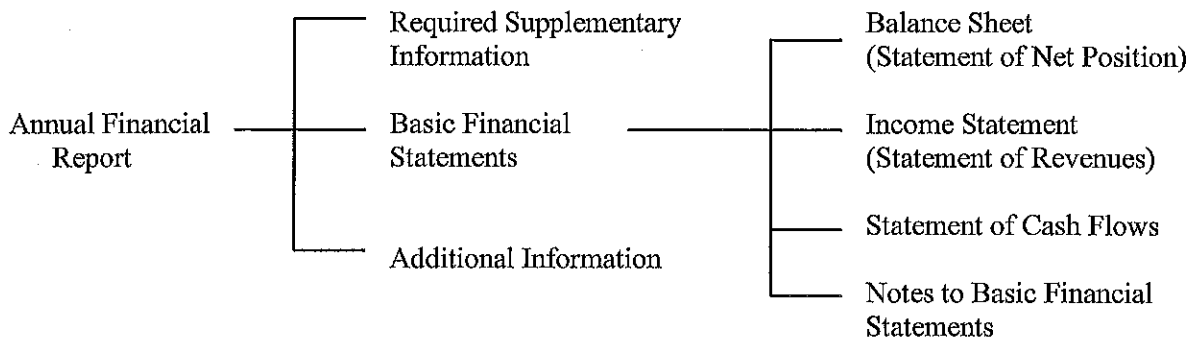


MANAGEMENT'S DISCUSSION AND ANALYSIS

This Discussion and Analysis of Carroll County Water District #1 financial performance provides an overview of the District's financial activities for the fiscal year ending December 31, 2020. It should be read in conjunction with the District's financial statements and supplementary information.

Financial Statements Overview

This annual financial report consists of three major parts: required supplementary information, basic financial statements, and supplementary information. Included with the financial statement are notes that explain in more detail some of the information in the financial statements. Additional to these notes is a section of supplementary information in support of the information in the financial statements. The figure below illustrates how the annual financial report is arranged.



The Balance Sheet or Statement of Net Position includes all of the District's assets and liabilities and provides a basis for evaluating the overall health and financial flexibility of the District.

The Income Statement or the Statement of Revenues, Expenses, and Changes in Fund Net Position accounts for all the current year's revenues and expenses. This statement is a ready reflection of the success of the District's operations over the past year and shows at a glance whether or not the District has recovered all of its costs through its water rates and other charges.

The Statement of Cash Flows' primary purpose is to provide information about the District's cash receipts, payments, and net changes in cash resulting from its operations, investing activities and financing activities and provides further information on the sources and uses of cash and the changes in the cash balances during the operating year.

Financial Highlights

- Total assets decreased by \$193,348 to \$12,483,394 in 2020. This decrease is explained by the cost of depreciation remaining high while additions to capital continued to be low.
- Operating Revenues decreased by \$55,174 or 3.0% to \$1,756,340 in 2020 due to lower revenues from miscellaneous income and service charges in 2020 resulting from the COVID 19 pandemic.
- Operating Expenses were down \$163,864 in 2020 when compared to 2019. This decrease is due largely to lower cost associated with distribution system maintenance, operating labor, and retirement plan expense. Maintenance costs were \$195,742 lower in 2020 mainly due to flood related costs incurred in 2019.

Financial Highlights (Continued)

- Net Income before Capital Contributions for 2020 as compared to the previous year was up \$108,553. This is primarily due to lower distribution system maintenance costs in 2020 when compared to the previous year.

Statement of Net Position

Capital additions during 2020 were \$133,096. These additions plus other [net] increases to other asset categories were less than the depreciation expense of \$443,605 for the year resulting in a \$193,348 decrease in total assets when compared to the prior year.

	2020	2019	2018	Difference 20-19	%
Utility Plant	\$8,840,462	\$9,150,971	\$9,405,654	(\$310,509)	(3.4)
Current Assets	\$2,068,238	\$2,091,417	\$2,080,380	(\$23,179)	(1.1)
Other Non-Current Assets	\$1,574,694	\$1,434,354	\$1,392,971	\$140,340	9.8
Total Assets	\$12,483,394	\$12,676,742	\$12,879,005	(\$193,348)	(1.5)

Deferred Outflows/Inflows of Resources

- This MDA is the fifth to deal specifically with CERS retirement liability and the third for health insurance (OPEB) liability. The District must plan to be prepared to assume liability for the pension plan that historically has been a state responsibility. To this date, there is no clear path of how a SPGE is to absorb this liability as it is not allowed by KY PSC in its rate structure. These outflows and inflows are neither assets nor liabilities but represent allocations that may impact future pension and Other Post Employment Benefits (OPEB) expenses. Increases in Deferred Outflows and Inflows of Resources are attributable to differences in CERS's actual performance when compared to actuarial expectations.

	2020	2019	2018	Difference 20-19	%
Deferred Outflows	\$417,661	\$402,859	\$372,117	\$14,802	3.7
Deferred Inflows	\$113,870	\$163,144	\$142,608	(\$49,274)	(30.2)

In addition to the deferred inflows related to the net pension and OPEB liabilities, the District had deferred inflows of \$1,827 and \$1,929 in unamortized bond premiums for the years ended December 31, 2020 and 2019.

Liabilities

The reduction of \$16,798 in total liabilities in 2020 vs. 2019 is attributable primarily to principal retirement. An offset to this reduction in total liabilities is a \$244,828 increase in the net pension and OPEB liability.

Liabilities (Continued)

	2020	2019	2018	Difference 20-19	%
Long Term Liabilities	\$6,948,753	\$6,989,440	\$7,080,465	(\$40,687)	(0.6)
Current & Accrued Liabilities	\$468,698	\$444,809	\$438,534	\$23,889	5.4
Total Liabilities	\$7,417,451	\$7,434,249	\$7,518,999	(\$16,798)	(0.2)

Total Net Position

Total Net Position decreased by \$112,474 reflecting the loss in operating income the District incurred in its operations.

	2020	2019	2018	Difference 20-19	%
Total Net Position	\$5,369,734	\$5,482,208	\$5,589,515	(\$112,474)	(2.1)

Income Statement

Operating Revenues for 2020 were down \$55,174 (3%) when compared to 2019 due to reduced miscellaneous income and service charges associated with COVID. Operating expenses for 2020 were down by \$163,864 when compared to 2019 due to lower labor and maintenance costs. Net Operating Revenue was up \$108,690 when compared to 2019 but was offset by a reduction in capital contributions. Capital Contributions were down \$113,720 due to reduced large size tap on fees in 2020 and FEMA disaster money received in 2019. The Net Income for the year was down by \$5,167, only slightly in 2020 compared to 2019.

	2020	2019	2018	Difference (20-19) (Unfavorable)	%
Operating Revenue	\$1,756,340	\$1,811,514	\$1,858,960	(\$55,174)	(3.0)
Operating Expense	\$1,769,997	\$1,933,861	\$1,823,926	\$163,864	8.5
Net Operating Revenue	(\$13,657)	(\$122,347)	\$35,034	\$108,690	88.9
Non-Operating Expenses	(\$155,312)	(\$155,175)	\$181,448	(\$137)	(0.09)
Capital Contributions	\$56,495	\$170,215	\$200,933	(\$113,720)	(66.8)
Special Item		-	-	-	-
Net Income	(\$112,474)	(\$107,307)	\$54,519	(\$5,167)	(4.8)

Statement of Cash Flows

Cash from Operating Activities was up by 32% or \$150,984 when compared to 2019. Although, customer receipts were down 3.6% for the year 2020 when compared to 2019, payments to suppliers were down 76% due to reduced maintenance costs resulting in the increase in cash from operating activities. Cash from financing activities were down significantly for the year 2020 due to lower capital contributions and the absence of disaster funding when compared to the previous year. These factors resulted in a net increase in cash of 4.8% at the years end.

	2020	2019	2018	Difference (20-19) (Unfavorable)	%
Cash from Operating Activities (Net)	\$621,954	\$470,970	\$567,849	\$150,984	32.1
Cash from Capital & Related Net Financing Activities	(\$541,159)	(\$356,758)	(\$600,903)	(\$184,401)	(51.7)
Cash from Investing Activities	\$3,708	(\$243,427)	\$4,559	\$247,135	101.5
Change in Cash	\$84,503	(\$129,215)	(\$28,495)	\$213,718	165.4
Cash Balance, Beginning of Year	\$1,779,188	\$1,908,403	\$1,936,898	(\$129,215)	5.7
Cash Balance, End of Year	\$1,863,691	\$1,779,188	\$1,908,403	\$84,503	4.8

Debt Administration

As of 2020 year's end, the District had outstanding Bond debt of \$4,690,500 and Notes Payable of \$664,597 for a total of \$5,355,097 in Long Term Debt. The Debt Coverage Ratio for 2020 was 1.29, a level that is sufficient only to pay debt allowing only a small allocation to capital improvements.

	2020	2019	2018	Difference (20-19)	%
Total Bonds Payable	\$4,690,500	\$4,853,500	\$5,010,500	(\$163,000)	(3.4)
Note Payable	\$664,597	\$783,239	\$899,359	(\$118,642)	(15.2)
Income Available for Debt Service	\$610,802	\$652,401	\$858,454	(\$41,599)	(6.4)
Total Debt Service	\$472,963	\$470,694	\$469,514	\$2,269	(0.5)
Debt Coverage	1.29	1.38	1.83	(0.09)	(6.5)

Economic Outlook

No major increases in sales revenues are expected. The two diagrams on the next page are offered to give a picture of the relative health of the Water District. The graph of the Operating Expenses including Depreciation versus Operating Revenue presents a view of monies remaining to cover debt after Operating Expenses have been paid. CCWD did not fully cover the Depreciation this year which triggers the possibility of a future rate increase. You will note the numbers for 2020 reflect a reduced level in Revenue versus Expenses as demonstrated throughout this MDA. The graph titled Operating Ratio depicts Total Operating Expenses less Depreciation divided by Total Revenues and is a measure of overall efficiency of the District. Management feels that trends in this Operating Ratio reflect the health of the District. In the healthiest operations this ratio will remain constant or reduce over time. You will note that this ratio was much better for 2020 when compared to prior years. Management is forecasting that CCWD may need a rate increase within two years to compensate for inflation, retirement plan costs, unusual weather trends, and to address changes in staff requirements. Until this rate increase can be put in place the district will likely have to pull down cash each year.

NOTE:

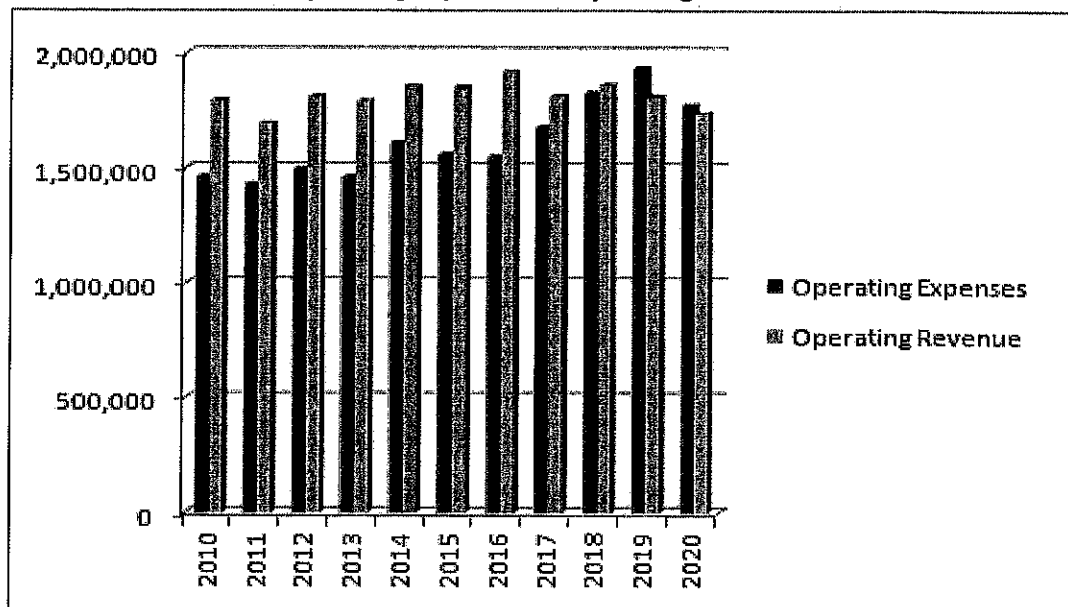
In 2018, within the state legislation session (HB 362), created a cap on the CERS employer's contribution maximum rate increase up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028. Even though this year the rate has been frozen, future pension and OPEB costs and the ultimate payment necessary to finance the District's share of those liabilities continue to be a high concern. If this trend continues, a rate increase will become necessary in order to maintain the required debt coverage especially if the retirement and health pension liabilities is to be included. This was also noted in the previous year of the MDA and confirms the heavy financial impact of the retirement pension on the District.

As of spring of 2021, the world economy continues to be impacted by the Coronavirus (COVID-19) pandemic which began approximately twelve months ago. At that time, the impact to the District was unknown. To this date, we still do not know the exact long term effect to the District. The government regulations, philosophy and the shift of responsibilities could have a negative long term effect to all utility districts.

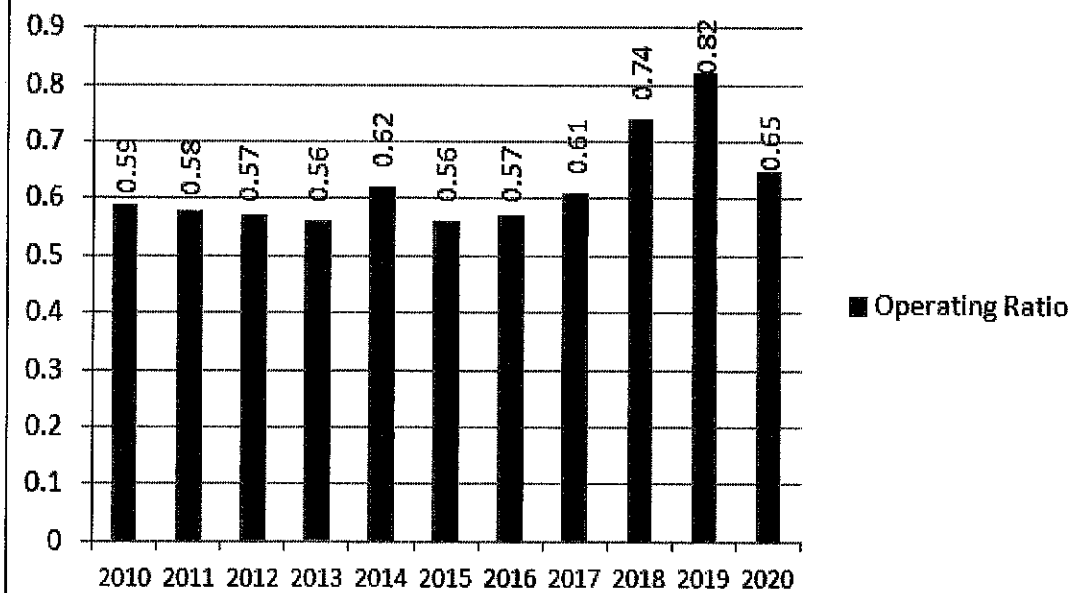
Contacting District Management

This financial report is designed to provide an easy to read general overview of the District's finances to its ratepayers, creditors, or public at large. It also provides accountability for the money received by the District. Questions concerning this report may be directed to the General Manager of the District at 205 Main Cross Street in Ghent, Kentucky 41045, phone 502-347-9500.

Operating Expenses vs. Operating Revenue



Operating Ratio



CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,596,582	\$ 1,625,288
Accounts Receivable (Net)	158,709	159,312
Other Receivables	2,502	8,126
Inventory	267,085	259,624
Prepaid Expense	43,360	39,067
Total Current Assets	<u>\$ 2,068,238</u>	<u>\$ 2,091,417</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,571,765	\$ 1,431,495
Interest Receivable	2,829	2,759
Capital Assets (Net)	8,840,462	9,150,971
Deposits	100	100
Total Noncurrent Assets	<u>\$ 10,415,156</u>	<u>\$ 10,585,325</u>
Total Assets	<u>\$ 12,483,394</u>	<u>\$ 12,676,742</u>
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 216,998	\$ 276,913
Attributable to Employee OPEB Plan	200,663	125,946
Total Deferred Outflows of Resources	<u>\$ 417,661</u>	<u>\$ 402,859</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 34,596	\$ 25,419
Accrued Compensated Absences	44,807	42,173
Accrued Wages	11,526	7,656
Accrued Payroll Taxes/Employee Withholding	15,557	15,586
Utility Tax Payable	4,183	4,101
Sales Tax Payable	3,065	2,702
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	63,242	65,529
Revenue Bonds Payable	170,500	163,000
Notes Payable	121,222	118,643
Total Current Liabilities	<u>\$ 468,698</u>	<u>\$ 444,809</u>
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 4,520,000	\$ 4,690,500
Notes Payable	543,375	664,596
Net Pension Liability	1,404,439	1,292,603
Net OPEB Liability	442,034	309,042
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	38,905	32,699
Total Noncurrent Liabilities	<u>\$ 6,948,753</u>	<u>\$ 6,989,440</u>
Total Liabilities	<u>\$ 7,417,451</u>	<u>\$ 7,434,249</u>
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 26,280	\$ 51,112
Attributable to Employee OPEB Plan	85,763	110,103
Unamortized Bond Premiums	1,827	1,929
Total Deferred Inflows of Resources	<u>\$ 113,870</u>	<u>\$ 163,144</u>
NET POSITION		
Net Investment in Capital Assets	\$ 3,483,538	\$ 3,512,303
Restricted for Debt Service	1,472,447	1,336,026
Unrestricted	413,749	633,879
Total Net Position	<u>\$ 5,369,734</u>	<u>\$ 5,482,208</u>

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2020 and 2019

Operating Revenues:	2020	2019
Charges for Services:		
Water Charges (Net)	\$ 1,690,847	\$ 1,675,675
Bulk Water Charges	1,359	447
Total Charges for Services	<u>\$ 1,692,206</u>	<u>\$ 1,676,122</u>
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 8,550	\$ 41,722
Reconnect and Disconnect Charges	33,775	36,650
Miscellaneous	21,809	57,020
Total Other Charges and Miscellaneous	<u>\$ 64,134</u>	<u>\$ 135,392</u>
Total Operating Revenues	<u>\$ 1,756,340</u>	<u>\$ 1,811,514</u>
Operating Expenses:		
Accounting and Collecting Labor	\$ 97,558	\$ 120,005
Administrative Per Diem	16,050	16,200
Administrative Salaries	119,761	121,430
Depreciation Expense	443,605	439,365
Employee Benefits	71,731	67,713
Employee Licenses	1,875	63
Insurance	35,803	36,017
Maintenance of Mains/Distribution System	67,524	263,266
Office Supplies and Expense	51,084	55,558
Operating Labor	260,697	228,079
Other Interest Expense	141	107
Other Post Employment Benefits (OPEB)	61,647	32,492
Payroll Taxes	38,214	38,358
Professional Services	17,855	17,692
Purchased Power	164,482	151,373
Purchased Water	4,910	6,003
Regulatory Fees	3,663	4,423
Repairs & Maintenance	10,115	11,072
Retirement Plan Expense	234,701	252,719
Transportation Expense	22,980	26,141
Uniforms	10,094	13,575
Utilities & Telephone	16,206	18,829
Water Treatment Expense	19,301	13,381
Total Operating Expenses	<u>\$ 1,769,997</u>	<u>\$ 1,933,861</u>
Operating Income	<u>\$ (13,657)</u>	<u>\$ (122,347)</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 30,901	\$ 29,541
Interest Expense	(187,913)	(194,044)
Gain (Loss) on Sale/Abandonment of Fixed Assets	1,700	9,328
Total Nonoperating Revenue (Expense)	<u>\$ (155,312)</u>	<u>\$ (155,175)</u>
Net Income (Loss) Before Contributions	<u>\$ (168,969)</u>	<u>\$ (277,522)</u>
Capital Contributions	56,495	170,215
Change in Net Position	<u>\$ (112,474)</u>	<u>\$ (107,307)</u>
Net Position - Beginning	<u>5,482,208</u>	<u>5,589,515</u>
Net Position - End of Year	<u><u>\$ 5,369,734</u></u>	<u><u>\$ 5,482,208</u></u>

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,763,594	\$ 1,829,732
Payments to Suppliers	(75,011)	(312,607)
Payments to Employees	(487,562)	(480,377)
Other Receipts (Payments)	(579,067)	(565,778)
Net Cash Provided (Used) by Operating Activities	<u>\$ 621,954</u>	<u>\$ 470,970</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 51,215	\$ 119,176
Purchase of Capital Assets (including Work in Process)	(133,096)	(184,682)
Principal Paid on Capital Debt	(281,642)	(273,120)
Interest Paid on Capital Debt	(190,302)	(198,311)
Proceeds FEMA Disaster Funding	-	159,753
Proceeds Build America Bonds Interest Reimbursement	10,966	11,098
Proceeds Sale of Capital Assets	1,700	9,328
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (541,159)</u>	<u>\$ (356,758)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	\$ (27,061)	\$ (272,336)
Interest Received	30,769	28,909
Net Cash Provided (Used) by Investing Activities	<u>\$ 3,708</u>	<u>\$ (243,427)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 84,503	\$ (129,215)
Balances-Beginning of the Year	<u>1,779,188</u>	<u>1,908,403</u>
Balances-End of the Year	<u><u>\$ 1,863,691</u></u>	<u><u>\$ 1,779,188</u></u>

	Balances Per December 31, 2020 Statement of Net Position	Balances Per December 31, 2020 Statement of Cash Flows
Cash	\$ 1,049,116	\$ 1,049,116
Time Deposits	547,466	-
Restricted Cash	814,575	814,575
Restricted Time Deposits	757,190	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 3,168,347</u>	<u>\$ 1,863,691</u>
	Balances Per December 31, 2019 Statement of Net Position	Balances Per December 31, 2019 Statement of Cash Flows
Cash	\$ 1,088,664	\$ 1,088,664
Time Deposits	536,624	-
Restricted Cash	690,524	690,524
Restricted Time Deposits	740,971	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 3,056,783</u>	<u>\$ 1,779,188</u>

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (13,657)	\$ (122,347)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	443,605	439,365
Pension Expense	142,056	171,680
OPEB Expense	38,798	6,222
Change in Assets and Liabilities:		
Receivables, Net	603	15,552
Inventories	(7,461)	(49,321)
Prepaid Expenses	(4,293)	5,290
Accounts Payable	9,177	(5,310)
Accrued Wages	3,870	3,070
Utility Tax Payable	82	231
Sales Tax Payable	363	(177)
Accrued Payroll Taxes & Employee Benefits	(29)	1,836
Customer Meter Deposits Payable	6,206	2,612
Accrued Compensated Absences	2,634	2,267
Net Cash Provided by Operating Activities	<u>\$ 621,954</u>	<u>\$ 470,970</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2020, Carroll County Water District No. 1 had no non-cash transactions outstanding associated with capital, investing and financing activities.

At December 31, 2019, Carroll County Water District No. 1 had receivables of \$5,686, associated with industrial meters.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of entity: Carroll County Water District No. 1 is a rural water company serving approximately 3,000 customers in Carroll, Owen and Gallatin Counties, Kentucky of which 169 are considered commercial and 40 are industrial users, or large users. The District is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of Carroll County through its fiscal court in 1960 and began operations in 1965.

In evaluating how to define Carroll County Water District No. 1 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by bond agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first. Restricted amounts are considered to have been spent when an expense is incurred for the purpose of such classifications.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory: Inventories are stated at latest cost.

Property and equipment: Property and equipment purchased or constructed is stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	10-35 years
- Distribution System	10-45 years
- Wells	35 years
- Machinery & Equipment	5-30 years

Debt Issuance Costs: Such costs are expensed as incurred.

Compensated Absences: See Note 9 for the District's policy on vacation and sick pay.

Pension: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Post Employment Benefits Other Than Pensions: For purposes of measuring the net liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employee's Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Deferred Outflows of Resources and Deferred Inflows of Resources: Deferred Outflows of Resources and Deferred Inflows of Resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

Income Taxes: The Carroll County Water District No. 1 is not subject to income taxes.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. Tap on fees of \$45,529 and \$124,861 were received by the District for the years ended December 31, 2020, and 2019, respectively. Capital contributions of \$10,966 and \$11,098 Build America Bonds interest reimbursements were received by the District during the years ended December 31, 2020, and 2019. Additionally, capital contributions arising from FEMA disaster assistance of \$34,256 were awarded in the year ended December 31, 2019.

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

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Carroll County Water District No. 1 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was to be established with the District's original bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the outstanding bond issues is as follows:

	one sixth (1/6) of the next semiannual interest payment
+	one twelfth (1/12) of next annual principal payment
=	monthly transfer

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2020 and 2019.

Under the bond resolution of the original 1965 bonds (now redeemed), a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. Under the provisions of the 1994 Bond Resolution, an adjustment was required to be made in the Depreciation Fund requirements upon the issuance of any bonds on a parity with the Series 1994 bonds. Therefore, with the issuance of subsequent bonds, additional transfer requirements were established as follows:

<u>Series</u>	<u>Transfer Due</u>	<u>Accumulation Required</u>
1999 A & B	\$2,090/month	\$250,800
2005 A & B	525/month	63,000
2010	510/month	61,200
Total		<u>\$375,000</u>

The 1994, 1997 A & B, and 1999 Series A & B issues were refunded with the issuance of the 2012B Bond Issue. The issue of 2012 ratified and confirmed the transfers required above to continue in force.

When the required balance of \$375,000 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

Under the District's debt agreement with the Kentucky Infrastructure Authority (KIA) a R&M Reserve is to be funded. \$7,500 is to be transferred annually into the reserve until a balance of \$75,000 is obtained.

A separate reserve has not been established for the Kentucky Infrastructure Authority reserve. However, the District has funded reserve accounts sufficient to fund the maximum accumulation mandated in the 1999 bond agreement plus the KIA's required balance at December 31, 2020 and 2019. The District transferred the monthly amounts required under the Series 2005 A and B bond agreement, and the additional \$510 payment required by the 2010 Series bond agreement during 2020 and 2019.

After the required monthly transfers to the respective bond and interest account and depreciation account, a transfer of one-twelfth (1/12) of the annual budgeted expenditures for the District is to be transferred to an operation and maintenance account for making expenditures for the District. Sixty days following year end, all remaining funds in the revenue account in excess of two (2) months operating budget requirements are to be transferred to the depreciation account.

At December 31, 2020 an additional transfer of \$95,064 is required and will be transferred in 2021. Additional transfers were not necessary in 2019.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities, including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2020 and 2019, in accordance with the District's policy, \$891,630 and \$882,190 respectively, of the District's deposits were covered by federal depository insurance and \$2,290,802 and \$2,195,387 respectively, were collateralized by securities held by the pledging financial institution's agent in the District's name. Thus the District had no deposits that were exposed to custodial credit risk.

At December 31, 2020 and 2019, the District's deposits were as follows:

December 31, 2020

<u>Type of Deposit</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,877,775	\$ 1,863,590
Time/Savings Deposits	1,304,657	1,304,657
Total Deposits	<u>\$ 3,182,432</u>	<u>\$ 3,168,247</u>

December 31, 2019

<u>Type of Deposit</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,799,982	\$ 1,779,088
Time/Savings Deposits	1,277,595	1,277,595
Total Deposits	<u>\$ 3,077,577</u>	<u>\$ 3,056,683</u>

Reconciliation to Statement of Net Position:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Unrestricted Cash	\$ 1,596,582	\$ 1,625,288
Restricted Cash, Including Time Deposits	1,571,765	1,431,495
Less: Cash on Hand	(100)	(100)
	<u>\$ 3,168,247</u>	<u>\$ 3,056,683</u>

NOTE 4 – RESTRICTED ASSETS

Restricted assets consists of the following:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Restricted Cash and Time Deposits		
Bond and Interest Sinking Account	\$ 382,091	\$ 373,968
Depreciation Reserve Account	1,150,769	1,024,828
Customer Deposits	38,905	32,699
Total	<u>\$ 1,571,765</u>	<u>\$ 1,431,495</u>
Interest Receivable - Depreciation Reserve Accounts	<u>\$ 2,829</u>	<u>\$ 2,759</u>

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$9,777 and \$2,121 at December 31, 2020 and 2019, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full) or one year pending a satisfactory payment record. Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current market rate. Accrued interest is paid annually and when the deposit is refunded.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2020 and 2019, was as follows:

	Balance at January 1, 2020	Additions	Disposals	Balance at December 31, 2020
Land & Land Rights	\$ 311,460	\$ -	\$ -	\$ 311,460
Structures & Improvements	325,927	21,865	(1,190)	346,602
Distribution System	15,257,164	72,746	-	15,329,910
Wells	539,913	-	-	539,913
Machinery & Equipment	823,552	38,485	(18,500)	843,537
Totals at Historical Cost	<u>\$ 17,258,016</u>	<u>\$ 133,096</u>	<u>\$ (19,690)</u>	<u>\$ 17,371,422</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 172,136	\$ 7,752	\$ (1,190)	\$ 178,698
Distribution System	7,059,640	361,340	-	7,420,980
Wells	335,422	15,376	-	350,798
Machinery & Equipment	539,847	69,137	(18,500)	580,484
Total Accumulated Depreciation	<u>\$ 8,107,045</u>	<u>\$ 443,605</u>	<u>\$ (19,690)</u>	<u>\$ 8,530,960</u>
Capital Assets, Net	<u>\$ 9,150,971</u>	<u>\$ (310,509)</u>	<u>\$ -</u>	<u>\$ 8,840,462</u>

	Balance at January 1, 2019	Additions	Disposals	Balance at December 31, 2019
Land & Land Rights	\$ 311,460	\$ -	\$ -	\$ 311,460
Structures & Improvements	325,927	-	-	325,927
Distribution System	15,106,482	150,682	-	15,257,164
Wells	539,913	-	-	539,913
Machinery & Equipment	841,097	34,000	(51,545)	823,552
Totals at Historical Cost	<u>\$ 17,124,879</u>	<u>\$ 184,682</u>	<u>\$ (51,545)</u>	<u>\$ 17,258,016</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 164,420	\$ 7,716	\$ -	\$ 172,136
Distribution System	6,700,466	359,174	-	7,059,640
Wells	320,046	15,376	-	335,422
Machinery & Equipment	534,293	57,099	(51,545)	539,847
Total Accumulated Depreciation	<u>\$ 7,719,225</u>	<u>\$ 439,365</u>	<u>\$ (51,545)</u>	<u>\$ 8,107,045</u>
Capital Assets, Net	<u>\$ 9,405,654</u>	<u>\$ (254,683)</u>	<u>\$ -</u>	<u>\$ 9,150,971</u>

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 7 – CAPITAL ASSETS (Continued)

Included under the District's Plant Assets at December 31, 2020 and 2019, respectively, were \$2,073,933 and \$1,923,378 of fully depreciated assets. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$443,605 and \$439,365 in 2020 and 2019, respectively.

NOTE 8 – LONG-TERM DEBT

Notes Payable:

The Carroll County Water District No. 1 entered into interlocal agreements under which it was the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Focus on Core Mission and Infrastructure Project and the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities was the recipient of the loan proceeds. It was also the entity overseeing the engineering and construction contracts, and other general costs associated with the projects. Carroll County Water District No. 1, under interlocal agreements with the City of Carrollton/Carrollton Utilities, agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. The District chose to repay the total debt associated with the Focus on Core Mission and Infrastructure Project in December, 2016.

On November 30, 2017, the Public Service Commission approved the refinancing of the Kentucky Infrastructure Authority Loan to lower the interest rate charged from 3% to 2.25%. The principal balance and payment schedule remained unchanged. The refinancing will save the District \$25,371 over the life of the loan. The net present value of the interest savings is \$23,396.

As of December 31, 2020 and 2019, the long-term debt payable consisted of the following:

Notes Payable:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Kentucky Infrastructure Authority represents a 20 year loan, original principal of \$1,908,662, secured by water revenues. Interest was charged at 3% per annum until November 30, 2017 when the interest rate was reduced to 2.25%. Payments are made semi-annually. Final maturity is December 1, 2024.	\$ 472,586	\$ 584,270
Carrollton Utilities (Carroll County Interconnect Project) represents a 30 year loan as stipulated in an interlocal agreement. Interest is charged at .75% per annum. In addition, a loan servicing fee of .25% of the annual outstanding loan balance is payable as a part of each interest payment. The original principal balance was \$301,721 before the note was reduced by 25% principal forgiveness of \$75,430. Semi-annual payments with final maturity December 1, 2045.	192,011	198,969
Total Notes Payable	<u>\$ 664,597</u>	<u>\$ 783,239</u>
Current Portion	\$ 121,222	\$ 118,643
Noncurrent Portion	543,375	664,596
Total Notes Payable	<u>\$ 664,597</u>	<u>\$ 783,239</u>

Upon the occurrence of an event of default, the Kentucky Infrastructure Authority shall be entitled to the appointment of a receiver of the System and all receipts therefrom. The Kentucky Infrastructure Authority may pursue any available remedy to enforce payment obligations or to remedy any event of default. In the event that the District defaults, the defaulting party also agrees to pay the fees of such attorneys and other expenses incurred by the Kentucky Infrastructure Authority.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 8 – LONG-TERM DEBT (Continued)

Bonds Payable:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
RECD Revenue Bonds of 2005 Series A, original issue amount of \$592,000, secured by water revenues. Interest is charged at the rate of 4.375% per annum. Final maturity is September 1, 2044.	\$ 472,000	\$ 483,000
RECD Revenue Bonds of 2005 Series B, original issue amount of \$319,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is September 1, 2044.	252,500	258,500
RECD Revenue Bonds of 2010, (Build America Bonds – Direct Payment), original issue amount of \$1,246,000, secured by water revenues. Interest is charged at the rate of 3% per annum. Final maturity is September 1, 2049.	1,081,000	1,102,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program) Series 2012 (B), original issue (District Share) \$3,785,000, secured by water revenues. Interest is charged at the rates of 2.2% - 4.2% per annum. Final maturity is January 1, 2039.	2,885,000	3,010,000
Total Bonds Payable	<u>\$ 4,690,500</u>	<u>\$ 4,853,500</u>

Bonds Payable:

Current Portion	\$ 170,500	\$ 163,000
Noncurrent Portion	4,520,000	4,690,500
Total Bonds Payable	<u>\$ 4,690,500</u>	<u>\$ 4,853,500</u>

Accrued Compensated Absences:

Current Portion	\$ 44,807	\$ 42,173
Noncurrent Portion	-	-
Total Accrued Compensated Absences	<u>\$ 44,807</u>	<u>\$ 42,173</u>

If there is any default in the payment of the principal of or interest on any of the bonds, then upon the filing of suit by any holder of said bonds, any court having jurisdiction of the action may appoint a receiver to administer the system on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of current expenses, and to apply the revenues in conformity with the bond resolution and the provisions of the statute laws of Kentucky.

Bonds Payable – U.S. Department of Agriculture – Rural Development, Series 2010

On November 11, 2010, the Carroll County Water District No. 1 issued \$1,246,000 Taxable Waterworks Revenue Bonds, Series 2010 with an interest rate of 3%. The proceeds were used to finance the 2007 water system improvement project. The first interest payment was due March 1, 2011. The first principal payment was due September 1, 2012. The final payment will be due September 1, 2049. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 35% of each interest payment due. The credit will amount to \$319,024 over the life of the issue.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2020 and 2019.

December 31, 2020

	Balance at January 1, 2020	Additions	Retirements	Balance at December 31, 2020	Current Portion
Notes Payable	\$ 783,239	\$ -	\$ 118,642	\$ 664,597	\$ 121,222
Bonds Payable	4,853,500	-	163,000	4,690,500	170,500
Accrued Compensated Absences	42,173	27,119	24,485	44,807	44,807
Total Long-term Debt	<u>\$ 5,678,912</u>	<u>\$ 27,119</u>	<u>\$ 306,127</u>	<u>\$ 5,399,904</u>	<u>\$ 336,529</u>

December 31, 2019

	Balance at January 1, 2019	Additions	Retirements	Balance at December 31, 2019	Current Portion
Notes Payable	\$ 899,359	\$ -	\$ 116,120	\$ 783,239	\$ 118,643
Bonds Payable	5,010,500	-	157,000	4,853,500	163,000
Accrued Compensated Absences	39,906	27,508	25,241	42,173	42,173
Total Long-term Debt	<u>\$ 5,949,765</u>	<u>\$ 27,508</u>	<u>\$ 298,361</u>	<u>\$ 5,678,912</u>	<u>\$ 323,816</u>

The annual requirements for all long-term debt outstanding at December 31, 2020, are as follows:

Due	Notes Payable	Notes Payable Interest	Service Fee	Bonds	Bonds Interest	Trustee Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2021	\$ 121,222	\$ 11,421	\$ 1,364	\$ 170,500	\$ 156,655	\$ 450	\$ 11,351	\$ 472,963
2022	123,859	8,784	1,117	171,500	151,272	450	11,120	468,102
2023	126,555	6,089	864	178,000	145,727	450	10,878	468,563
2024	129,311	3,333	606	184,000	140,020	450	10,637	468,357
2025	7,224	1,214	405	191,500	134,071	450	10,385	345,249
2026-30	36,940	5,247	1,749	1,060,500	568,222	2,250	47,776	1,722,684
2031-35	38,349	3,838	1,279	1,226,000	358,365	2,250	39,891	1,669,972
2036-40	39,812	2,376	792	876,500	141,164	1,800	30,472	1,092,916
2041-45	41,325	857	286	412,000	47,107	-	19,226	520,801
2046-49	-	-	-	220,000	11,091	-	5,529	236,620
	<u>\$ 664,597</u>	<u>\$ 43,159</u>	<u>\$ 8,462</u>	<u>\$ 4,690,500</u>	<u>\$ 1,853,694</u>	<u>\$ 8,550</u>	<u>\$ 197,265</u>	<u>\$ 7,466,227</u>

The annual requirements for all long-term debt outstanding at December 31, 2019, are as follows:

Due	Notes Payable	Notes Payable Interest	Service Fee	Bonds	Bonds Interest	Trustee Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2020	\$ 118,643	\$ 14,001	\$ 1,606	\$ 163,000	\$ 161,937	\$ 450	\$ 11,571	\$ 471,208
2021	121,222	11,421	1,364	170,500	156,655	450	11,351	472,963
2022	123,859	8,784	1,117	171,500	151,272	450	11,120	468,102
2023	126,555	6,089	864	178,000	145,727	450	10,878	468,563
2024	129,311	3,333	606	184,000	140,020	450	10,637	468,357
2025-29	36,665	5,523	1,841	1,026,000	603,645	2,250	49,194	1,725,118
2030-34	38,063	4,124	1,375	1,209,000	403,746	2,250	41,581	1,700,139
2035-39	39,515	2,673	891	1,037,000	177,201	2,250	32,488	1,292,018
2040-44	41,022	1,165	388	443,500	59,052	-	21,641	566,768
2045-49	8,384	47	16	271,000	16,376	-	8,375	304,198
	<u>\$ 783,239</u>	<u>\$ 57,160</u>	<u>\$ 10,068</u>	<u>\$ 4,853,500</u>	<u>\$ 2,015,631</u>	<u>\$ 9,000</u>	<u>\$ 208,836</u>	<u>\$ 7,937,434</u>

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 9 – COMPENSATED ABSENCES

Employees receive one half sick day per month for sick time. A maximum of six months sick leave may be accumulated and credited to service time at retirement up to a maximum of six months. Upon termination of employment, no portion of accrued sick leave is payable. Vacation days accumulate as follows:

<u>Full Years of Continuous Service</u>	<u>Earned Vacation</u>
First (Incoming) Year	40 hours
One (1) to Five (5) Years	80 hours
Six Years	88 hours
Each Service Year Until Fifteen	+8 hours/year
Fifteen (15) Years and Over	160 hours

Unused vacation may be carried into the next calendar year not to exceed thirty (30) working days (240 hours). Vacation in excess of 30 days will be forfeited unless bought back by the District.

The District accrues a liability for compensated absences which meet the following criteria:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

Sick leave accumulated but not accrued at December 31, 2020 and 2019 was \$62,849 and \$53,192, respectively. At December 31, 2020 and 2019, a liability for accrued vacation due was recorded in the amount of \$44,807 and \$42,173, respectively.

NOTE 10 – FUND EQUITY – RESTRICTED / UNRESTRICTED NET POSITION

Restricted for Debt Service:

RECD Revenue Bonds of 2005 Series A and B,
2010 Series; Kentucky Rural Water Refunding
Revenue Bonds, Series 2012 B and Kentucky
Infrastructure Authority Note Payable
Cash
Add: Accrued Interest Receivable
Less: Accrued Interest Payable
Total Restricted for Debt Service

<u>December 31, 2020</u>	<u>December 31, 2019</u>
\$ 1,532,860	\$ 1,398,796
2,829	2,759
(63,242)	(65,529)
<u>\$ 1,472,447</u>	<u>\$ 1,336,026</u>

Unrestricted net position was reduced by \$180,854 and \$177,902 for the years ended June 30, 2020 and 2019, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability and Net OPEB Liability. The accounts affected were as follows:

	<u>2020</u>	<u>2019</u>
Increase (Decrease) in Deferred Outflows of Resources	\$ 14,802	\$ 30,742
(Increase) Decrease in Deferred Inflows of Resources	49,172	(20,638)
(Increase) Decrease in Net Pension Liability	(111,836)	(198,053)
(Increase) Decrease in Net OPEB Liability	(132,992)	10,047
Net Decrease in Unrestricted Net Position	<u>\$ (180,854)</u>	<u>\$ (177,902)</u>

NOTE 11 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2020 and 2019 was \$188,054 and \$194,151, respectively.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN)

The Carroll County Water District No. 1 participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees.

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. Under the provisions of Kentucky Revised Statute ("KRS") Section 61.701, the KRS Board administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for an insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the pension funds administered by KRS, which includes CERS.

Under the provisions of HB 484 passed in the 2020 General Assembly, which adjourned on April 15, 2020, the current administrative structure was changed creating a new 9-member CERS Board with oversight and governance responsibility for the CERS plan(s). The Kentucky Public Pensions Authority (KPPA) is a new 8-member Board, which will be responsible for the day to day administrative, legal, operational, and investment aspects of all KRS plans including CERS.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS's pension and insurance funds. Additionally, the Kentucky Retirement System issues publicly available financial reports that include the Schedules of Employer Allocations and Pension amounts, and the Schedules of Employer Allocations of Post Employment Benefits Other Than Pension amounts, by employer. The most recent financial reports, may be obtained on-line as follows:

- Kentucky Retirement Systems Audit Report – 2020
[https://kyret.ky.gov/Publications/Books/2020%20CAFR%20\(Comprehensive%20Annual%20Financial%20Report\).pdf](https://kyret.ky.gov/Publications/Books/2020%20CAFR%20(Comprehensive%20Annual%20Financial%20Report).pdf)
- KRS Schedules of Employer Allocations & Pension Amount by Employer for the Fiscal Year Ended June 30, 2020
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2020%20GASB%2068%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- KRS Schedules of Employer Allocations & OPEB Amounts by Employer for the Fiscal Year Ended June 30, 2020
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2020%20GASB%2075%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- Kentucky CERS GASB 68 Accounting & Financial Reporting for Pensions as of June 30, 2020 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2020%20GASB%2068%20Actuary%20Report%20CERS.pdf>
- Kentucky CERS GASB 75 Accounting & Financial Reporting for Postemployment Benefits Other Than Pensions as of June 30, 2020 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2020%20GASB%2075%20Actuary%20Report%20CERS.pdf>

Basis of Accounting – CERS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Method Used to Value Investments/Investment Objectives – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year. Investment returns are recorded net of investment fees.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

- **Shorter-Term (5 years and less):** The returns of the particular asset classes of the managed funds of the Systems, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.
- **Medium-Term (5 to 20 years):** The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- **Longer-Term:** The total assets of the Systems should achieve a return of 6.25% for CERS pension and insurance plans. This is measured over 20 years and beyond and should exceed the actuarially required rate of return as well as the return achieved by its total fund benchmark.

Target Asset Allocation – Pension and Insurance as of June 30, 2020 and 2019:

The long-term expected rates of return were determined by using a building block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

The long-term expected real rate of return was 3.96% and 3.89% at June 30, 2020 and 2019.

	Target Asset Allocation		Long-Term Expected Rate of Return	
	2020	2019	2020	2019
Combined Equity	52.50%	52.50%	3.90%-5.25%	2.60%-4.80%
Combined Fixed Income	13.50%	13.50%	-0.25%	1.35%
Private Equity	10.00%	10.00%	6.65%	6.65%
Real Return	15.00%	15.00%	3.95%	4.10%
Real Estate	5.00%	5.00%	5.30%	4.85%
Opportunistic	3.00%	3.00%	2.25%	2.97%
Cash	1.00%	1.00%	-0.75%	0.20%
	<u>100.00%</u>	<u>100.00%</u>	<u>3.96%</u>	<u>3.89%</u>

- The investment portfolio for the Pension Funds reported a net return of 1.15% for the fiscal year 2020 compared to 5.83% return for fiscal year 2019. The investment portfolio for the Insurance Fund reported a net return of 0.48% for the fiscal year, which was lower than fiscal year 2019 net return of 5.67%. The investment return was below the 6.25% assumed rate of return.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

PENSION PLAN DESCRIPTION – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous and hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS along with hazardous duty positions of each participating county, city, or school board, any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011. The Carroll County Water District No. 1 participates in the non-hazardous plan.

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

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

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings for Tier 1 and Tier 2. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after earning a minimum months of service credit (120 months for Tier 2 and 180 months for Tier 3). Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

Under the provisions of House Bill 271 surviving spouses of members who die due to a duty related injury will no longer have their monthly benefit reduced, if they remarry. The bill restores the original benefit for spouses already remarried and increases benefits for beneficiaries who chose to receive lifetime monthly benefits in lieu of the line-of-duty survivor benefits to the amount calculated under the line-of-duty survivor provisions.

Contributions - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. Under House Bill 352, the 2020 General Assembly only passed a one year budget (for the fiscal

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

year ended June 30, 2021 due to the COVID-19 pandemic crisis. For the fiscal years ended June 30, 2020 and 2019 participating non-hazardous employers contributed 24.06% and 21.48%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2020 and 2019 were 27.28% and 28.05%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

House Bill 362 passed during the 2018 legislative session caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028.

Non-hazardous employer contributions for the year ended June 30, 2020, of 24.06% were allocated 19.30% to CERS's pension fund and 4.76% to CERS OPEB (health insurance) fund, respectively. Non-hazardous employer contributions for the year ended June 30, 2019, of 21.48% were allocated 16.22% to CERS's pension fund and 5.26% to CERS' OPEB (health insurance) fund, respectively.

For the fiscal years ended June 30, 2020 and 2019, plan members who began participating prior to September 1, 2008, were required to contribute 5% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. Plan members who began participating on, or after, September 1, 2008 and before January 1, 2014, were required to contribute a total of 6% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%.

If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, for plan members who began participating on, or after, September 1, 2008, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

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

Interest is paid into the Tier 3 member's account. The account currently earns 4% interest credit on the member's account balance as of June 30th of the previous year. The member's account may be credited with additional interest if the system's five-year Geometric Average Net Investment Return (GANIR) exceeded 4%. If the member was actively employed and participating in the fiscal year, and if the systems' GANIR for the previous five years exceeds 4%, then the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30th of the previous year (Upside Sharing Interest). It is possible that one system in KRS may get an Upside Sharing Interest, while another may not.

The 1% of pay member contributions for Tier 1 and Tier 2 members to a 401(h) subaccount are considered an OPEB asset.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Pension Plan)

Per the Kentucky Retirement System's 2020 Comprehensive Annual Financial Report, the actuarially determined contribution rates effective for fiscal year 2020 are calculated as of June 30, 2018. Based on the June 30, 2018 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are as follows:

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

The actuarially determined contribution rates for the pension plan effective for fiscal years ending 2020 and 2019 are calculated as of June 30, 2018 and 2017, respectively. Based on these actuarial valuation reports, the actuarial methods and assumptions used to calculate these contribution rates are below:

Item	CERS June 30, 2020 Non-Hazardous	CERS June 30, 2019 Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2018	June 30, 2017
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Amortization Period:	25 Years, Closed	26 Years, Closed
Payroll Growth Rate:	2.00%	2.00%
Investment Return:	6.25%	6.25%
Inflation:	2.30%	2.30%
Salary Increases:	3.30% to 11.55%, varies by service	3.30% to 11.55%, varies by service
Mortality:	RP-200 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females). For healthy retired members and beneficiaries, the mortality table used is the RP 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.	RP-200 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females). For healthy retired members and beneficiaries, the mortality table used is the RP 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.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Actuarial Methods and Assumptions Used in Calculation of the Actuarially Determined Total Pension Liability and Net Pension Liability

The net position liability as of June 30, 2020, is based on the June 30, 2019 actuarial valuation rolled forward. 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 measurement date at June 30, 2020, using generally accepted actuarial principles.

The net position liability as of June 30, 2019, is based on the June 30, 2018 actuarial valuation rolled forward. The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date to the measurement date at June 30, 2019, using generally accepted actuarial principles.

There have been no assumption changes since June 30, 2019. 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 June 1, 2020.

The actuarial assumptions are:

June 30, 2020 and 2019

Inflation	2.30%
Salary Increases	3.30% - 10.30% varies by service
Investment Rate of Return	6.25%

The mortality table(s) used in the determination of the total pension liability as of June 30, 2020 and 2019 were as follows. The mortality table used for active members was a Pub-2010 General Mortality table for the Non-hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

Under the provisions of House Bill 271 surviving spouses of members who die due to a duty related injury will no longer have their monthly benefit reduced, if they remarry. The bill restores the original benefit for spouses already remarried and increases benefits for beneficiaries who chose to receive lifetime monthly benefits in lieu of the line-of-duty survivor benefits to the amount calculated under the line-of-duty survivor provisions.

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous for the years ended June 30, 2020 and 2019 assumes that the fund received the required employer contributions each future year, as determined by the current funding policy established in statute, as last amended by House Bill 362 (passed in 2018).

The discount rate does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the KRS Comprehensive Annual Financial Report.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension

At December 31, 2020 and 2019 the District reported a liability of \$1,404,439 and \$1,292,603, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2020, and 2019 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, and 2019 the District's proportion was 0.018311 and 0.018379 percent, respectively, which is a decrease of 0.000068% and an increase 0.000407% for the years ended June 30, 2020 and June 30, 2019, respectively.

The District's total payroll for the calendar year ended December 31, 2020 was \$502,549. Contributions to the CERS were based on \$480,024 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2020 were \$92,645.

The District's total payroll for the calendar year ended December 31, 2019 was \$504,533. Contributions to the CERS were based on \$471,269 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2019 were \$81,039.

All contributions were made as required.

The District's contribution for the County Employees' Retirement System's year(s) ended June 30, 2020, and 2019 was 0.018311 and 0.018379 percent, respectively, of the System's total contribution requirements for all employers.

For the years ended December 31, 2020, and December 31, 2019, the District recognized pension expense of \$234,701 and \$252,719, respectively. At December 31, 2020 and 2019 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	December 31, 2020		December 31, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 35,022	\$ -	\$ 33,004	\$ 5,462
Change in Assumptions	54,841	-	130,826	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	18,654	547	45,450	-
Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	60,878	25,733	24,813	45,650
District Contributions Made Subsequent to the NPL Measurement Date	47,603	-	42,820	-
Total	\$ 216,998	\$ 26,280	\$ 276,913	\$ 51,112

\$47,603 and \$42,820 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2021 and 2020, respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

		Increase (Decrease) to Pension Expense
Year Ended December 31, 2020:		
	2021	\$ 72,074
	2022	39,959
	2023	16,967
	2024	14,115
		<u>\$ 143,115</u>
		Increase (Decrease) to Pension Expense
Year Ended December 31, 2019:		
	2020	\$ 117,236
	2021	48,226
	2022	16,040
	2023	1,479
		<u>\$ 182,981</u>

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2020 and 2019], calculated using the discount rates of 6.25% and 6.25% for the years ended June 30, 2020 and 2019, respectively, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
As of June 30, 2020			
Net Pension Liability	\$ 9,458,676,903	\$ 7,669,917,211	\$ 6,188,756,202
District's Proportionate Share	1,731,978	1,404,439	1,133,223
	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
As of June 30, 2019			
Net Pension Liability	\$ 8,796,343,903	\$ 7,033,044,552	\$ 5,563,351,626
District's Proportionate Share	1,616,680	1,292,603	1,022,488

The discount rate determination does not use a municipal bond rate.

Payable to the Pension Plan

At December 31, 2020 and 2019, the District reported a payable of \$10,110 and \$9,161 for the outstanding amount of contributions required for the years then ended. The amount represents the employee withholding and employer match for the last month of the years then ended.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

OPEB PLAN

Insurance (OPEB) Plan Description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. A portion of the insurance premiums are withheld from benefit payments for members including those of the CERS Non-Hazardous system.

Contributions

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

The amount of benefit paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum benefit are as follows:

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
20+ years	100.00%
15-19+ years	75.00%
10-14+ years	50.00%
4-9+ years	25.00%
Less than 4 years	0.00%

For the fiscal years ended June 30, 2020 and 2019, plan members who began on, or after, September 1, 2008 (classified in the Tier 2 or Tier 3 structure of benefits) were required to contribute 1% of their annual creditable compensation to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E), which is considered an OPEB asset.

If a member terminates employment the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Participating employers are required to contribute at an actuarially determined rate as described previously.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (OPEB)

Per the Schedule of Employer Allocations and OPEB Amounts by Employer for Kentucky Retirement Systems, *Report for Postemployment Benefits* prepared as of June 30, 2020 and 2019, the actuarially determined contribution rates effective for fiscal year ending June 30, 2020 and 2019 are calculated based on the actuarial methods and assumptions as follows:

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

The actuarially determined contribution rates for the OPEB plan effective for fiscal years ending 2020 and 2019 are calculated based on the actuarial methods and assumptions below:

Item	CERS June 30, 2020 Non-Hazardous	CERS June 30, 2019 Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2018	June 30, 2017
Experience Study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Amortization Period:	25 Years, Closed	26 Years, Closed
Payroll Growth Rate:	2.00%	2.00%
Investment Return:	6.25%	6.25%
Inflation:	2.30%	2.30%
Salary Increases:	3.30% to 11.55%, varies by service	3.30% to 11.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)	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.
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.	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.	Board Certified Rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and Net OPEB Liability

The assumed increase in future health care costs, or trend assumptions was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

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

For financial reporting the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019, were based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children for all active members who die in the line of duty.

The actuarial assumption used are:

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

The actuarial methods and assumptions to determine the Total OPEB Liability and Net OPEB Liability are below:

Item	CERS June 30, 2020 Non-Hazardous	CERS June 30, 2019 Non-Hazardous
Inflation	2.30%	2.30%
Payroll Growth Rate	2.00%	2.00%
Salary Increases	3.05% average	3.30% - 10.30% varies by service
Investment Rate of Return	6.25%	6.25%
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.	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.
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.	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.
Mortality Pre-retirement	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).	PUB-2010 General Mortality Table projected with th ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females).	System Specific Mortality Table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Post-retirement (disabled)	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. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.	PUB-2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Discount Rate

The projection of cash flows used to determine the June 30, 2020 discount rate of 5.34% for CERS Non-hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 23 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-year Municipal GO AA Index" as of June 30, 2020.

The projection of cash flows used to determine the June 30, 2019 discount rate of 5.68% for CERS Non-hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019.

The fully-insured premiums KRS pays for the CERS Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees.

However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Kentucky Retirement System's CAFR.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan

At December 31, 2020 and 2019 the District reported a liability of \$442,034 and \$309,042, respectively.

The District's total payroll for the calendar year ended December 31, 2020 was \$502,549. Contributions were based on \$480,024 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2020 were \$22,849.

The District's total payroll for the calendar year ended December 31, 2019 was \$504,533. Contributions were based on \$471,269 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2019 were \$26,270.

All contributions were made as required.

The allocation of the employers' proportionate share of the Net OPEB Liability and OPEB expense was determined using the employer's actual contributions for the fiscal year ending June 30, 2020.

The District's contribution for the County Employee's Retirement System's (Insurance Plan) for the years ended June 30, 2020 and 2019 was 0.018306 percent and 0.018374 percent, respectively, of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the years ended June 30, 2020 and 2019 was \$9,199 and \$5,374, respectively.

For the years ended December 31, 2020 and 2019, the District recognized expense of \$61,647 and \$32,492, respectively. At December 31, 2020 and 2019 the District reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan (Continued)

	December 31, 2020		December 31, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 73,855	\$ 73,912	\$ -	\$ 93,245
Change in Assumptions	76,888	468	91,449	612
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	14,468	2,363	18,581	484
Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments	23,712	9,020	2,036	15,762
District Contributions Made Subsequent to the Net OPEB Measurement Date	11,740	-	13,880	-
Total	\$ 200,663	\$ 85,763	\$ 125,946	\$ 110,103

\$11,740 and \$13,880 reported as deferred outflows of resources related to OPEB arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the years ended December 31, 2021 and 2020 respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources and deferred inflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

		Increase (Decrease) to OPEB Expense
Year Ended December 31, 2020:		
	2021	\$ 27,684
	2022	32,032
	2023	23,695
	2024	20,566
	2025	(817)
		\$ 103,160
		Increase (Decrease) to OPEB Expense
Year Ended December 31, 2019:		
	2020	\$ 1,666
	2021	1,666
	2022	6,031
	2023	(2,339)
	2024	(4,238)
	Thereafter	(823)
		\$ 1,963

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 12 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Payable to the OPEB Health Insurance Plan

At December 31, 2020 and 2019, the District reported a payable of \$2,493 and \$2,970, respectively for the outstanding amount of contributions required for the years then ended. This amount represents the employee withholding and employer match for the last month of the years then ended.

Sensitivity of the District's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2020, calculated using the single discount rate of 5.34% as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2020	1% Decrease [4.34%]	Current Discount [5.34%]	1% Increase [6.34%]
Net OPEB Liability	\$ 3,102,175,364	\$ 2,414,695,884	\$ 1,850,046,176
District's Proportionate Share	567,884	442,034	338,669

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2020, calculated using the healthcare cost trend rate for the year ended June 30, 2020 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2020	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 1,869,578,166	\$ 2,414,695,884	\$ 3,076,209,120
District's Proportionate Share	342,245	442,034	563,131

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2019, calculated using the single discount rates of 5.85% for the year ended June 30, 2018 as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2019	1% Decrease [4.68%]	Current Discount [5.68%]	1% Increase [6.68%]
Net OPEB Liability	\$ 2,253,127,713	\$ 1,681,954,950	\$ 1,211,346,586
District's Proportionate Share	413,990	309,042	222,573

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2019, calculated using the healthcare cost trend rate for the year ended June 30, 2018 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2019	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 1,250,878,480	\$ 1,681,954,950	\$ 2,204,686,275
District's Proportionate Share	229,836	309,042	405,089

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 13 – ECONOMIC DEPENDENCY

Carroll County Water District No. 1 provides water services to residential, commercial and industrial customers. It should be noted that 13.5% and 16.1% of total water revenue was received from two industries, North American Stainless and Nucor Steel, for the years ended December 31, 2020 and 2019.

NOTE 14 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through premiums paid to Kentucky Association of Counties All Lines Fund. The District is also subject to the risks associated with employee injury. These risks are covered through premiums paid to the Kentucky Association of Counties, Workers' Compensation Self-insurance Fund. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

NOTE 15 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$22,772 and \$20,110 at December 31, 2020 and 2019, respectively.

NOTE 16 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Carroll County Water District No. 1, has entered into a water resale agreement with Kentucky American Water Company to supply Kentucky American Water Company's customers in the area of Wheatley, Kentucky. Under this agreement, as amended September 15, 2013, Carroll County Water District No. 1 will sell its water to the Kentucky American Water Company at a price of \$2.26 per 1,000 gallons. The agreement is for a term of 20 years with automatic one-year extensions unless terminated by either party upon one year's written notice. Rates may be modified by providing 120 days notice or by action of the Public Service Commission.

The District has entered into a 99 year lease with the City of Ghent for the use of one of the City's buildings. The District paid the City \$15,000 for the lease. The prepayment is being amortized over the life of the lease.

During the 2018 Kentucky Legislature Session, House Bill 362 passed which caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period July 1, 2018 to June 30, 2028. During the 2020 regular session, Senate Bill 249 froze the CERS employer rate phase-in for one year and House Bill 352 included provisions to keep the CERS rates the same as fiscal year 2020, effective July 1, 2020. The CERS Employer rate beginning July 1, 2020 and 2019 have been set at 24.06% and 24.06% respectively.

NOTE 17 – SUBSEQUENT EVENTS

Management has considered subsequent events through the date of this report March 24, 2021, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2020. However, the following significant events occurred after December 31, 2020:

In March, 2020 significant steps were taken by federal and state governments to limit the effect of the COVID-19 virus. The effect of executive governmental orders to discontinue the collection of penalties and enforcement of cutoff policies during the period are reflected in this report. Kentucky is in the process of "reopening" the economy. Impacts that this and future decisions may have on the financial position of the District is unknown at this time.

CARROLL COUNTY WATER DISTRICT NO. 1

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset) %	0.018311%	0.018379%	0.017972%	0.016683%	0.016485%	0.01638%	0.016490%
District's proportionate share of the net pension liability (asset)	\$ 1,404,439	\$ 1,292,603	\$ 1,094,550	\$ 976,507	\$ 811,645	\$ 704,435	\$535,000
District's covered payroll (calendar year)	\$ 480,024	\$ 471,269	\$ 447,333	\$422,380	\$ 400,856	\$ 394,012	\$382,520
District's proportionate share of the net pension liability (asset) as a percentage of its of its covered payroll	292.58%	274.28%	244.68%	231.19%	202.48%	178.79%	139.86%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.3%	55.5%	59.97%	66.80%

Calculations of the District's proportion of the net pension liability (%) and proportionate share of the net pension liability (\$) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and Pension Amounts by Employer for the fiscal years ended June 30, shown.

District payroll is reported for its' covered calendar years ending December 31, 2014 through 2020.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Inflation	2.30%	2.30%	2.30%	2.30%	3.25%	3.25%	3.50%
Salary Increases	3.30%-10.30%	3.30%-10.30%	3.05%	3.05%	4.00%	4.00%	4.50%
Investment Rate of Return	6.25%	6.25%	6.25%	6.25%	7.50%	7.50%	7.75%

The mortality table(s) used in the determination of the total pension liability as of June 30, 2020 and 2019 were as follows. The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

The assumed rates of retirement, withdrawal, and disability were based on an actuarial valuation performed as of June 30, 2019.

CARROLL COUNTY WATER DISTRICT NO. 1

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM**

For Years Ended December 31

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contributions	\$ 92,645	\$ 81,039	\$ 68,732	\$ 59,317	\$ 54,235	\$ 51,276
Contributions in relation to the contractually required contributions	92,645	81,039	68,732	59,317	54,235	51,276
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (calendar year)	\$ 480,024	\$ 471,269	\$ 447,333	\$ 422,380	\$ 400,856	\$ 394,012
Contributions as a percentage of covered payroll	19.30%	17.19%	15.36%	14.04%	13.52%	13.01%

The District's contributions above include only contributions to the County Employees Retirement System Pension Fund. GASB 68 requires the District to present the above information for the CERS pension for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

CARROLL COUNTY WATER DISTRICT NO. 1

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31**

	2020	2019	2018	2017
District's proportion of the net OPEB liability (asset) %	0.018306%	0.018374%	0.017972%	0.016683%
District's proportionate share of the net OPEB liability (asset)	\$ 442,034	\$ 309,042	\$ 319,089	\$ 335,385
District's covered payroll (Calendar Year)	\$ 480,024	\$ 471,269	\$ 447,333	\$ 422,380
District's proportionate share of the net OPEB liability (asset) as a percentage of its of its covered payroll	92.08%	65.58%	71.33%	79.40%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.4%

Calculations of the District's proportion of the net OPEB liability (%) and proportionate share of the net OPEB liability (\$) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and OPEB Amounts by Employer for the fiscal years ended June 30, shown.

GASB 75 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

District covered payroll is reported for its calendar year.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

Actuarial Methods and Assumptions for Determining Net OPEB Liability:

	2020	2019	2018	2017
Payroll Growth Rate	2.0%	2.0%	2.0%	2.0%
Salary Increases	3.30%-10.30% varies by service	3.30%-10.30% varies by service	3.05% Average	3.05% Average
Investment Rate of Return	6.25%	6.25%	6.25%	6.25%
Inflation	2.3%	2.3%	2.3%	2.3%
Healthcare Trend Rates: Pre-65	Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare Trend Rates: Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	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.	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.	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.
Mortality: Pre-Retirement	PUB-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.	PUB-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
Post-Retirement	System Specific Mortality Table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement Scale using a base year of 2019.	System Specific Mortality Table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement Scale using a base year of 2019.	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females).	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females).
Post-Retirement (disabled)	PUB 2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 is used for the period after disability.	PUB 2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 is used for the period after disability.	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.	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.

See accompanying notes to the basic financial statements

CARROLL COUNTY WATER DISTRICT NO. 1

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Years Ended December 31

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contributions	\$ 22,849	\$ 26,270	\$ 22,310	\$ 20,112	\$ 17,604	\$ 17,092
Contributions in relation to the contractually required contributions	22,849	26,270	22,310	20,112	17,604	17,092
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (calendar year)	\$ 480,024	\$ 471,269	\$ 447,333	\$ 422,380	\$ 400,856	\$ 394,012
Contributions as a percentage of covered payroll	4.76%	5.57%	4.98%	4.76%	4.39%	4.33%

The District's contributions above include only the contributions to the County Employees Retirement System Insurance Fund.

GASB 75 requires the District to present the above information for the CERS OPEB Plan for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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

To the Commissioners of the
Carroll County Water District No. 1
Ghent, KY 41045

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Carroll County Water District No. 1 as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Carroll County Water District No. 1's basic financial statements and have issued our report thereon dated March 24, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Carroll County Water District No. 1's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Carroll County Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Carroll County Water District No. 1's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Items 2020-001 and 2020-002 that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

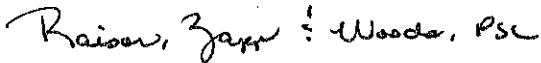
As part of obtaining reasonable assurance about whether Carroll County Water District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CARROLL COUNTY WATER DISTRICT NO. 1'S RESPONSE TO FINDINGS

Carroll County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Carroll County Water District No. 1'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.



RAISOR, ZAPP & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

March 24, 2021

CARROLL COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2020

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Carroll County Water District No. 1 were prepared in accordance with GAAP.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the 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. Items 2020-001 and 2020-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Carroll County Water District No. 1 were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

2020-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CONDITION:

District personnel have implemented sound oversight procedures over cash reconciliations and the monthly billing and expense disbursement processes. However, instances were observed where postings to the District's general ledger were not made to the appropriate account (expense vs. capital or liability accounts). This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2019 as Item 2019-001.

CAUSE:

Cost of system improvements were not capitalized in all cases. Some accruals were not adjusted appropriately for payments made/received.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

Management should consider financial statement implications when posting to the general ledger to ensure accurate balances.

VIEWS of RESPONSIBLE OFFICIALS:

We concur with the recommendation. Management has enhanced and will further advance the monthly review and checking procedures associated with its financial information. Management has provided training in the past to improve internal improvements. Management is also seeking a trustworthy source to assist on a monthly basis to create assurances and provide expertise in the area in an efficient manner.

CARROLL COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2020

FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

2020-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2019 as 2019-002.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor to assist with the preparation of the draft financial statements, including the related notes.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

VIEWS of RESPONSIBLE OFFICIALS:

As in the past, the outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. Management is continuing in the efforts to make improvements within bookkeeping procedures. It also realizes that the Governmental Accounting Standards Board (GASB) continues to change its generally accepted accounting principles (GAAP) for the state and local governments. Therefore, management will be seeking a trustworthy source to obtain additional assistance in this matter.

COMPLIANCE AND OTHER MATTERS

NONE