

EAST CASEY COUNTY WATER DISTRICT
Liberty, Kentucky

FINANCIAL STATEMENTS
December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
East Casey County Water District
Liberty, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the East Casey County Water District (the District), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the East Casey County Water District, as of December 31, 2021 and 2020, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the East Casey County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the East Casey County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 20-25 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
July 6, 2022

EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31,

ASSETS	2021	2020
Current assets		
Cash and cash equivalents	\$ 522,187	\$ 491,502
Investments - certificates of deposit	631,275	735,382
Customer accounts receivable, net	151,972	147,686
Accrued interest receivable	303	350
Other receivable	-	1,820
Total current assets	1,305,737	1,376,740
Restricted assets		
Investments - certificates of deposit	38,630	38,630
Capital assets		
Land	101,814	101,814
Property, plant and equipment, net	11,363,467	11,583,366
Construction-in-progress	2,014	2,014
Total capital assets	11,467,295	11,687,194
Total assets	12,811,662	13,102,564
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	48,932	96,302
Deferred outflows - OPEB	95,090	102,268
Total deferred outflows of resources	144,022	198,570
Total assets and deferred outflows of resources	\$ 12,955,684	\$ 13,301,134
LIABILITIES		
Current liabilities		
Accounts payable	\$ 100,323	\$ 115,017
Taxes payable	11,693	12,427
Customer deposits payable	32,900	33,150
Accrued interest payable	6,684	7,027
Current portion of long-term debt	178,019	172,956
Total current liabilities	329,619	340,577
Noncurrent liabilities		
Net pension liability	627,506	751,422
Net OPEB liability	188,382	236,495
KIA revolving loan payable	675,681	724,117
Bonds payable	2,052,475	2,183,331
Total noncurrent liabilities	3,544,044	3,895,365
Total liabilities	3,873,663	4,235,942
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	96,490	14,020
Deferred inflows - OPEB	91,439	47,429
Total deferred inflows of resources	187,929	61,449
NET POSITION		
Net investment in capital assets	8,561,120	8,606,790
Restricted for reserves	38,630	38,630
Unrestricted	294,342	358,323
Total net position	8,894,092	9,003,743
Total liabilities, deferred inflows of resources and net position	\$ 12,955,684	\$ 13,301,134

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

EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the years ended December 31,

	2021	2020
OPERATING INCOME		
Water sales	\$ 1,918,826	\$ 1,845,566
Late charges	32,502	11,320
Other revenue	<u>14,566</u>	<u>15,710</u>
Total operating income	<u>1,965,894</u>	<u>1,872,596</u>
OPERATING EXPENSES		
Water purchases	901,747	970,125
Salaries	260,445	248,184
Employee benefits	176,977	234,024
Taxes	23,103	20,762
Office expense and postage	40,989	34,017
Insurance	30,682	30,838
Transportation expense	30,181	24,785
Line upkeep	85,799	64,562
Contract labor	29,202	36,194
Utilities and telephone	105,095	101,767
Legal and professional	23,493	28,328
Miscellaneous	27,487	27,335
Regulatory commission expenses	<u>3,745</u>	<u>3,637</u>
Total operating expenses	<u>1,738,945</u>	<u>1,824,558</u>
Operating income (loss) before depreciation	226,949	48,038
Depreciation expense	<u>(316,265)</u>	<u>(311,351)</u>
OPERATING INCOME (LOSS)	(89,316)	(263,313)
Non-operating income (expenses)		
Interest income	11,235	15,833
Interest expense	(82,166)	(86,407)
Long-term debt service costs	(8,064)	(8,493)
Gain (loss) on disposal of assets	<u>14,200</u>	<u>13,100</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(154,111)	(329,280)
Capital Contributions		
Tap fees	43,610	39,605
Other	<u>850</u>	<u>2,230</u>
Change in net position	(109,651)	(287,445)
Net position, beginning of year	<u>9,003,743</u>	<u>9,291,188</u>
NET POSITION, END OF YEAR	<u>\$ 8,894,092</u>	<u>\$ 9,003,743</u>

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

**EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,961,608	\$ 1,880,022
Payment to suppliers	(1,288,994)	(1,291,875)
Payment for employee services and benefits	<u>(457,625)</u>	<u>(441,325)</u>
Net cash provided (used) by operating activities	<u>214,989</u>	<u>146,822</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments	(174,229)	(172,920)
Interest payments	(82,509)	(86,710)
Long-term debt service costs	(8,064)	(8,493)
Additions to capital assets	(95,371)	(50,319)
Proceeds from disposal of capital assets	14,200	13,100
Tap fees	43,610	39,605
Other capital contributions	<u>2,670</u>	<u>4,740</u>
Net cash provided (used) by capital and related financing activities	<u>(299,693)</u>	<u>(260,997)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of certificates of deposit	104,107	130,624
Interest income	<u>11,282</u>	<u>20,539</u>
Net cash provided (used) by investing activities	<u>115,389</u>	<u>151,163</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,685	36,988
Cash and cash equivalents, beginning of year	<u>491,502</u>	<u>454,514</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 522,187</u>	<u>\$ 491,502</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (89,316)	\$ (263,313)
Noncash items included in operating income:		
Depreciation	316,265	311,351
Changes in net pension liability	5,924	65,541
Changes in net OPEB liability	3,075	11,536
Changes in assets and liabilities:		
(Increase) decrease in receivables	(4,286)	7,426
Increase (decrease) in accounts payable	(15,689)	8,473
Increase (decrease) in customer deposits	(250)	5,450
Increase (decrease) in taxes/other payables	<u>(734)</u>	<u>358</u>
Net cash provided (used) by operating activities	<u>\$ 214,989</u>	<u>\$ 146,822</u>
Supplemental disclosure of cash flow information:		
Non-cash capital and related financing information:		
Amortization on bond premium	<u>\$ 1,273</u>	<u>\$ 1,273</u>

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

EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

1. ORGANIZATION AND ACCOUNTING POLICIES

The East Casey County Water District (the District) was created and organized as a public body corporate in Casey County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Casey County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The net position of the District is classified into three categories: net investment in capital assets, restricted and unrestricted. The restricted net position consists of reserves for depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 4.

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates.

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand, cash in bank and certificates of deposit with original maturities of 90 days or less.

The District records revenue as billed to its customers on monthly meter reading cycles. At the end of each year, water service which has been rendered from the latest date of each meter reading to the year end is unbilled.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, capital contributions and gains and losses on sales of capital assets.

Capital assets are recorded at cost. Donated assets are valued at their fair market value on the date of donation. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

The allowance for uncollectible accounts at December 31, 2021 and 2020 was \$906,308 and \$855,635, respectively. The District charges all uncollected accounts directly against current earnings. Charges against earnings for the years ended December 31, 2021 and 2020 was \$50,673 and \$58,599, respectively.

Investments consist of certificates of deposit with original maturities of 90 days or longer. Investments are recorded at cost, which approximates fair value.

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 County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

The District has evaluated and considered the need to recognize or disclose subsequent events through July 6, 2022, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the year ended December 31, 2021, have not been evaluated by the District.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480. The District does not have a formal investment policy but follows Kentucky Revised Statutes for investing funds.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The East Casey County Water District deposits at December 31, 2021 and 2020, were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$1,196,940 and \$1,271,813 at December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, \$500,000 and \$500,000, respectively, of the District's deposits were covered by Federal Depository Insurance, and \$696,940 and \$771,813, respectively, were covered by collateral held by the custodial banks in the District's name.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

3. PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of changes in capital assets for the District at December 31, 2021:

	Balance 12/31/2020	Additions	Deductions	Balance 12/31/2021
Capital assets not depreciated:				
Land	\$ 101,814	\$ -	\$ -	\$ 101,814
Construction in progress	<u>2,014</u>	<u>-</u>	<u>-</u>	<u>2,014</u>
Totals	<u>103,828</u>	<u>-</u>	<u>-</u>	<u>103,828</u>
Capital assets that are depreciated:				
Property, plant and equipment	<u>18,912,972</u>	<u>96,366</u>	<u>-</u>	<u>19,009,338</u>
Less accumulated depreciation	<u>7,329,606</u>	<u>316,265</u>	<u>-</u>	<u>7,645,871</u>
Totals	<u>11,583,366</u>	<u>(219,899)</u>	<u>-</u>	<u>11,363,467</u>
Capital assets, net	<u>\$ 11,687,194</u>	<u>\$ (219,899)</u>	<u>\$ -</u>	<u>\$ 11,467,295</u>

The following is a summary of changes in capital assets for the District at December 31, 2020:

	Balance 12/31/2019	Additions	Deductions	Balance 12/31/2020
Capital assets not depreciated:				
Land	\$ 88,044	\$ 13,770	\$ -	\$ 101,814
Construction in progress	<u>-</u>	<u>2,014</u>	<u>-</u>	<u>2,014</u>
Totals	<u>88,044</u>	<u>15,784</u>	<u>-</u>	<u>103,828</u>
Capital assets that are depreciated:				
Property, plant and equipment	<u>18,897,948</u>	<u>34,535</u>	<u>19,511</u>	<u>18,912,972</u>
Less accumulated depreciation	<u>7,037,766</u>	<u>311,351</u>	<u>19,511</u>	<u>7,329,606</u>
Totals	<u>11,860,182</u>	<u>(276,816)</u>	<u>-</u>	<u>11,583,366</u>
Capital assets, net	<u>\$ 11,948,226</u>	<u>\$ (261,032)</u>	<u>\$ -</u>	<u>\$ 11,687,194</u>

4. LONG-TERM DEBT

In December 2014, the Kentucky Bond Corporation issued Series 2014E Revenue Bonds for the District to refund all prior outstanding bonds. This issue contained a premium in the amount of \$30,552, which has been reported with bonds payable and is being amortized over the term of the debt. The new issue will reduce debt service payments by \$753,224 and has a net economic gain of \$149,472. This issue requires annual premium payments which began in February 2016. The bonds bear interest at an average rate of 3.63%.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

4. LONG-TERM DEBT (CONTINUED)

The District has obtained a Federally Assisted Drinking Water Revolving Loan from the Kentucky Infrastructure Authority to fund the Various Waterline Extensions Project. The project was completed during 2016, and no draws have been made since. At project completion in 2016, final loan less forgiveness amounts totaled \$1,004,250. Loan repayments began during 2016. The loan has a stated interest rate of 1% to be repaid over 20 years.

The annual requirements to amortize all direct borrowings outstanding as of December 31, 2021, are as follows:

Year Ending	Principal	Interest	Fees	Payment
2022	\$ 178,019	\$ 79,552	\$ 7,631	\$ 265,202
2023	183,505	75,179	7,186	265,870
2024	184,412	70,651	6,727	261,790
2025	189,491	66,105	6,265	261,861
2026	194,991	61,417	5,791	262,199
2027-2031	921,390	232,153	21,819	1,175,362
2032-2036	817,303	110,893	10,667	938,863
2037-2039	<u>215,423</u>	<u>12,656</u>	<u>1,781</u>	<u>229,860</u>
	<u>2,884,534</u>	<u>\$ 708,606</u>	<u>\$ 67,868</u>	<u>\$ 3,661,007</u>
Premium on refunding	<u>21,641</u>			
		<u>\$ 2,906,175</u>		

The following is a summary of long-term liabilities for the year ended December 31, 2021:

	Interest Rate	Balance January 1, 2021	Issued	Payments	Balance December 31, 2021
Direct borrowings					
KY Bond Corporation	3.63%	\$ 2,285,417	\$ -	\$ 125,000	\$ 2,160,417
Premium on Refunding		22,914	-	1,273	21,641
KIA Revolving Loan	1.00%	<u>772,073</u>	<u>-</u>	<u>47,956</u>	<u>724,117</u>
Total direct borrowings		3,080,404	-	174,229	2,906,175
Net pension liability		751,422	-	123,916	627,506
Net OPEB liability		<u>236,495</u>	<u>-</u>	<u>48,113</u>	<u>188,382</u>
Total long-term liabilities		<u>\$ 4,068,321</u>	<u>\$ -</u>	<u>\$ 346,258</u>	<u>\$ 3,722,063</u>

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

4. LONG-TERM DEBT (CONTINUED)

The following is a summary of long-term liabilities for the year ended December 31, 2020:

	Interest Rate	Balance January 1, 2020	Issued	Payments	Balance December 31, 2020
Direct borrowings					
KY Bond Corporation	3.63%	\$ 2,409,584	\$ -	\$ 124,167	\$ 2,285,417
Premium on Refunding		24,187	-	1,273	22,914
KIA Revolving Loan	1.00%	<u>819,553</u>	<u>-</u>	<u>47,480</u>	<u>772,073</u>
Total direct borrowings		3,253,324	-	172,920	3,080,404
Net pension liability		711,955	39,467	-	751,422
Net OPEB liability		<u>170,231</u>	<u>66,264</u>	<u>-</u>	<u>236,495</u>
Total long-term liabilities		<u>\$ 4,135,510</u>	<u>\$ 105,731</u>	<u>\$ 172,920</u>	<u>\$ 4,068,321</u>

Depreciation Reserve - Per the assistance agreement with KIA, the District is required to maintain a depreciation reserve in the amount of \$38,630. The District met this requirement at December 31, 2021 and 2020.

5. RETIREMENT PLAN

The East Casey County Water District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority's website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2021, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 proceeding 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 basis adopted by the Board. For the year ended December 31, 2021, participating employers contributed 24.06% through June 30th and 26.95% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 6. Plan members contributed 19.30% through June 30th and 21.17% thereafter to the pension trust for non-hazardous job classifications for the year ended December 31, 2021. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

5. RETIREMENT PLAN (CONTINUED)

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$52,763 for the year ended December 31, 2021, or 100% of the required contribution for non-hazardous job classifications. The District contributed \$47,899 for the year ended December 31, 2020, or 100% of the required contribution for non-hazardous job classifications.

Benefits – 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 and 4 years service
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 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 to 87+
	Reduced retirement	Not available

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

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

5. RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2021, the District reported a liability of \$627,506 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the District's proportion was .00984 percent, which was an increase of .00004 percent from its proportion measured as of June 30, 2020.

For the year ended December 31, 2021, the District recognized pension expense of \$58,686. For the year ended December 31, 2020, the District recognized pension expense of \$113,441. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 7,206	\$ 6,090
Changes of assumptions	8,422	-
Net difference between projected and actual earnings on Plan investments	-	83,636
Changes in proportion and differences between District contributions and proportionate share of contributions	5,039	6,764
District contributions subsequent to the measurement date	28,265	-
Total	\$ 48,932	\$ 96,490

The \$28,265 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2021 will be recognized in pension expense as follows:

Year ending December 31,	
2022	\$ (11,807)
2023	\$ (19,135)
2024	\$ (18,692)
2025	\$ (26,189)

Actuarial Assumptions – The total pension liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25%, net of Plan investment expense, including inflation

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

5. RETIREMENT PLAN (CONTINUED)

The mortality table used for active members was a Pub-2010 General Mortality table, 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 2020. 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.

The actuarial assumption used in the June 30, 2021 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2021, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	-0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Total	100.00%	5.00%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		7.30%

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the closed 30-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

5. RETIREMENT PLAN (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate		District's proportionate share of net pension liability
1% decrease	5.25%	\$	804,805
Current discount rate	6.25%	\$	627,506
1% increase	7.25%	\$	480,793

Payable to the Pension Plan – At December 31, 2021 and 2020, the District reported a payable of \$6,305 and \$6,357, respectively, for the outstanding amount of contributions to the pension plan required for the years then ended, respectively. The payable includes both the pension and insurance contribution allocation.

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 5, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 5, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2021, the employer's contribution was 4.76% through June 30th and 5.78% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 proceeding 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 basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

For the year ended December 31, 2021, the District contributed \$13,759, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2020, the District contributed \$11,814, or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2021, the District reported a liability for its proportionate share of the net OPEB liability of \$188,382. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined.

The District's proportionate share at June 30, 2021 was .00984 percent, which was an increase of .00005 percent from its proportion measured as of June 30, 2020.

For the year ended December 31, 2021, the District recognized OPEB expense of \$22,799. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 29,623	\$ 56,245
Changes of assumptions	49,944	175
Net difference between projected and actual earnings on Plan investments	-	29,470
Changes in proportion and differences between District contributions and proportionate share of contributions	1,607	5,549
District contributions subsequent to the measurement date	<u>13,916</u>	<u>-</u>
Total	<u>\$ 95,090</u>	<u>\$ 91,439</u>

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The \$13,916 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2022. This includes an adjustment of \$6,199 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,

2022	\$	3,183
2023	\$	(1,292)
2024	\$	(1,231)
2025	\$	(10,925)

Actuarial Assumptions – The total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate or return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The mortality table used for active members was a Pub-2010 General Mortality table, 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.

The actuarial assumption used in the June 30, 2021 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Total	100.00%	5.00%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		7.30%

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2021 was 5.20% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2021, 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”. 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.

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net OPEB liability calculated using the discount rate as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount rate	Proportionate share of net OPEB liability
1% decrease	4.20%	\$ 258,647
Current discount rate	5.20%	\$ 188,382
1% increase	6.20%	\$ 130,718

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the District's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		Proportionate share of net OPEB liability
1% decrease	\$	135,617
Current trend rate	\$	188,382
1% increase	\$	252,085

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. COVID-19 PANDEMIC

Since 2020, various restrictions have been placed on travel and business across the United States in response to the COVID-19 pandemic. The duration and pervasiveness of these restrictions are uncertain as of the date of these financial statements. The District is continuously evaluating the impact of COVID-19 and related responses on the operations and finances of the District. Restrictions placed on the District could negatively impact the District's revenue and expenses for an unknown period of time. At this time, a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.

REQUIRED SUPPLEMENTARY INFORMATION

**EAST CASEY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Eight Years**

Reporting Year End (Measurement Date)	December 31, 2014 (June 30, 2014)	December 31, 2015 (June 30, 2015)	December 31, 2016 (June 30, 2016)	December 31, 2017 (June 30, 2017)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)
District's proportion of the net pension liability	0.00977%	0.00971%	0.00963%	0.01012%	0.00991%	0.01012%	0.00980%	0.00984%
District's proportionate share of the net pension liability (asset)	\$ 317,000	\$ 417,568	\$ 474,260	\$ 592,296	\$ 603,671	\$ 711,955	\$ 751,422	\$ 627,506
District's covered employee payroll	\$ 224,206	\$ 229,730	\$ 240,266	\$ 257,062	\$ 245,659	\$ 255,348	\$ 250,947	\$ 251,398
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	141.39%	181.76%	197.39%	230.41%	245.74%	278.82%	299.43%	249.61%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%	50.45%	47.81%	57.33%

Notes:

The above schedule will present 10 years of historical data, once available.

**EAST CASEY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - PENSION
Last Nine Calendar Years**

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 27,976	\$ 29,813	\$ 29,587	\$ 34,089	\$ 34,090	\$ 38,922	\$ 45,071	\$ 47,899	\$ 52,763
Contributions relative to contractually required employer contribution	<u>27,976</u>	<u>29,813</u>	<u>29,587</u>	<u>34,089</u>	<u>34,090</u>	<u>38,922</u>	<u>45,071</u>	<u>47,899</u>	<u>52,763</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 225,527	\$ 224,349	\$ 236,962	\$ 257,403	\$ 239,758	\$ 253,314	\$ 253,713	\$ 248,183	\$ 260,445
Employer contributions as a percentage of covered-employee payroll	12.40%	13.29%	12.49%	13.24%	14.22%	15.37%	17.76%	19.30%	20.26%

Notes:

The above schedule will present 10 years of historical data, once available.

**EAST CASEY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Six Years**

Reporting Year End (Measurement Date)	December 31, 2016 (June 30, 2016)	December 31, 2017 (June 30, 2017)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)
District's proportion of the net OPEB liability	0.01012%	0.01012%	0.00991%	0.01012%	0.00979%	0.00984%
District's proportionate share of the net OPEB liability (asset)	\$ 159,562	\$ 203,427	\$ 175,968	\$ 170,231	\$ 236,495	\$ 188,382
District's covered employee payroll	\$ 240,266	\$ 257,062	\$ 245,659	\$ 255,348	\$ 250,947	\$ 251,398
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	66.41%	79.14%	71.63%	66.67%	94.24%	74.93%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%

Notes:

The above schedule will present 10 years of historical data, once available.

**EAST CASEY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - OPEB
Last Nine Calendar Years**

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 15,362	\$ 11,174	\$ 11,147	\$ 12,068	\$ 11,304	\$ 12,627	\$ 12,709	\$ 11,814	\$ 13,759
Contributions relative to contractually required employer contribution	<u>15,362</u>	<u>11,174</u>	<u>11,147</u>	<u>12,068</u>	<u>11,304</u>	<u>12,627</u>	<u>12,709</u>	<u>11,814</u>	<u>13,759</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 225,527	\$ 224,349	\$ 236,962	\$ 257,403	\$ 239,758	\$ 253,314	\$ 253,713	\$ 248,183	\$ 260,445
Employer contributions as a percentage of covered-employee payroll	6.81%	4.98%	4.70%	4.69%	4.71%	4.98%	5.01%	4.76%	5.28%

Notes:

The above schedule will present 10 years of historical data, once available.

EAST CASEY COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2021

1. GENERAL INFORMATION

Contributions

Contractually required employer contributions reported on the Schedule of Contributions - Pensions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of Contributions - OPEB.

Payroll

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Proportionate Share of the Net OPEB Liability is for the corresponding measurement date of the net liabilities and differs from the District's calendar year payroll as reported on the Schedule of Contributions for Pension and OPEB.

2. CHANGES OF ASSUMPTIONS

December 31, 2021 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

December 31, 2020 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%.

December 31, 2019 – Pension and OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

December 31, 2018 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

December 31, 2017 – Pension and OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017, for both pension and OPEB:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

EAST CASEY COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2021

2. CHANGES OF ASSUMPTIONS (CONTINUED)

December 31, 2016 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

December 31, 2015 – Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

December 31, 2014 – Pension

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

December 31, 2013 – Pension

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

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

Board of Commissioners
East Casey County Water District
Liberty, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the East Casey County Water District (the District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 6, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be material weaknesses (2021-001 and 2021-002).

Report on Compliance and Other Matters

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

East Casey County Water District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

RFH

RFH, PLLC
Lexington, Kentucky
July 6, 2022

**EAST CASEY COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2021**

FINDING:

2021-001 – Internal Control Over Financial Reporting (Recurring) (Material)

Criteria:

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:

Management engaged the auditor to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

Cause:

The District lacks personnel with the expertise to prepare cash to accrual adjustments and draft the financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

Effect:

Management engaged the auditor to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

Recommendation:

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements on the accrual basis of accounting.

Response:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to adjust the books to the accrual basis and to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the adjustments and financial statements.

2021-002 – Customer Deposit and Cut-Off Policies (Recurring) (Material)

Criteria:

Internal controls within the District should ensure that policies and procedures effective in helping to reduce the amount of uncollectible charges and bad debt write-offs the District incurs, are in place and consistently applied.

Condition:

Throughout the year, the District accumulated approximately \$50,673 of customer charges that were deemed uncollectible.

Cause:

At the present time, the District refunds customer deposits annually, regardless of a customer's payment history. In addition, we noted that customer cut-offs are not consistently performed and are often performed after substantial accumulation of past due amounts. Approvals for payment plans and decisions not to cut a customer off are also not adequately documented.

**EAST CASEY COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2021**

2021-002 – Customer Deposit and Cut-Off Policies (Recurring) (Material) (Continued)

Effect:

The District's deposit policy does not allow for sufficient deposits to remain on hand to cover bad debts. This leaves the District vulnerable to customers who do not pay. In addition, the inconsistent application of cut-off procedures and lack of appropriate approval and documentation of determinations not to cut a customer off means the District could often be providing water to customers who will never pay.

Recommendation:

We recommend that the District revise its customer deposit policy to provide itself with assurance of at least partial coverage of final billings, especially for customers who have a history of late or non-payment. More importantly, we recommend that the District modify its cut-off procedures to cut off all past due customer accounts after a pre-determined amount of time, unless the customer has established a formal payment plan. We recommend that such payment plans, as well as decisions not to disconnect a customer, be approved by management and that the approval for these policy exceptions be properly documented.

Response:

The District agrees with your recommendation, representing the best case scenario and will attempt to follow your recommendation.