

EAST CLARK COUNTY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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SUMMERS, MCCRARY & SPARKS, P.S.C.

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LAURENCE T. SUMMERS
1961-1992

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
East Clark County Water District
Winchester, KY

We have audited the accompanying financial statements of the business-type activities the East Clark County Water District as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedules of Proportionate Share, and the Schedules of Contributions and related notes on pages 4-7 and 36-41 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Statements of Functional Expenses and the Statements of Revenue, Expenditures and Changes in Net Position – Budget and Actual for the years ended December 31, 2020 and 2019 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statements of Revenue, Expenditures and Changes in Net Position – Budget and Actual and the Statements of Functional Expenses for the years ended December 31, 2020 and 2019 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statements of Revenue, Expenditures and Changes in Net Position – Budget and Actual and the Statements of Functional Expenses for the years ended December 31, 2020 and 2019 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2021, 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 to solely 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 East Clark County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Winchester, Kentucky

March 31, 2021

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2020 AND 2019

East Clark County Water District (the District) is presenting the following discussion and analysis to provide an overall review of the District's financial activities for the fiscal years ending December 31, 2020, 2019, and 2018. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

2020 FINANCIAL HIGHLIGHTS

- The District's operating revenues and operating expenses remained consistent with the prior year.
- The District's total assets and deferred outflows of resources decreased \$3,627 and total liabilities and deferred inflows of resources increased \$120,387 from 2019 to 2020, resulting in a decrease in total net position of \$124,014 or 1.6% from the prior year.
- Interest income for 2020 was \$23,289, which is a decrease of \$522 under interest income in 2019.

GENERAL INFORMATION ABOUT EAST CLARK COUNTY WATER DISTRICT

The District recognized the need for a central water supply for the residents of the eastern section of Clark County, Kentucky early in its history. The District was organized in 1967 pursuant to Chapter 74 of the Kentucky Revised Statutes.

Management is vested in a five-member commission consisting of a chairman and four commissioners appointed by Clark County Fiscal Court.

The District relies on Winchester Municipal Utilities and Kentucky American Water Company for its water supply. Water is pumped to approximately 2400 customers through more than 197 miles of water mains. The Kentucky Public Service Commission (PSC) regulates the District in matters of rates, rules, and levels of service.

DISTRICT FINANCIAL ANALYSIS

The Statements of Net Position includes all the District's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District. A summary of the District's Statements of Net Position is presented below.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2020 AND 2019

Condensed Statements of Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 1,986,788	\$ 1,936,564	\$ 2,022,888
Capital Assets, net of depreciation	<u>7,808,224</u>	<u>7,928,572</u>	<u>7,984,306</u>
Total Assets	<u>9,795,012</u>	<u>9,865,136</u>	<u>10,007,194</u>
 Deferred Outflows of resources	 <u>325,445</u>	 <u>258,948</u>	 <u>242,471</u>
 Debt outstanding	 841,824	 919,256	 1,091,688
Other liabilities	<u>1,356,565</u>	<u>1,125,594</u>	<u>1,049,635</u>
Total liabilities	<u>2,198,389</u>	<u>2,044,850</u>	<u>2,141,323</u>
 Deferred Inflows of resources	 <u>69,693</u>	 <u>102,845</u>	 <u>103,567</u>
 Investment in capital assets, net of depreciation	 6,966,400	 7,009,316	 6,892,618
Restricted net assets	136,201	136,201	136,201
Unrestricted net assets	<u>749,774</u>	<u>830,872</u>	<u>975,956</u>
 Total net position	 \$ <u><u>7,852,375</u></u>	 \$ <u><u>7,976,389</u></u>	 \$ <u><u>8,004,775</u></u>

Net position decreased \$124,014 from 2019 to 2020, a decrease of 1.6%. Debt outstanding decreased \$77,432 or 8.4% from 2019.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2020 AND 2019

Condensed Statements of Revenue, Expenditures, and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 1,464,409	\$ 1,479,698	\$ 1,409,595
Non-operating revenues	<u>23,289</u>	<u>39,043</u>	<u>23,928</u>
Total revenues	<u>1,487,698</u>	<u>1,518,741</u>	<u>1,433,523</u>
Operating Expenses	1,271,995	1,185,417	1,164,419
Depreciation	360,062	348,298	333,343
Non-operating expense	<u>31,390</u>	<u>34,273</u>	<u>52,828</u>
Total expenses	<u>1,663,447</u>	<u>1,567,988</u>	<u>1,550,590</u>
Net income	(175,749)	(49,247)	(117,067)
Customer connection fees	<u>51,735</u>	<u>20,861</u>	<u>21,768</u>
Change in net position	(124,014)	(28,386)	(95,299)
Beginning net position	<u>7,976,389</u>	<u>8,004,775</u>	<u>8,100,074</u>
Ending net position	\$ <u>7,852,375</u>	\$ <u>7,976,389</u>	\$ <u>8,004,775</u>

The District's total revenue, excluding grants, decreased by \$31,043 or 2.04%. The decrease is due in part to the decrease in non-operating revenue. Total expenses increased \$95,459 or 6.09%. The increase is due to the increase in purchased water and administrative expenses and the decrease in non-operating expenses. The increase in depreciation in 2020 of \$11,764 or 3.38% is attributed purchase of equipment. In 2020, non-operating revenue consists of interest income of \$23,289. In 2019, non-operating revenue consists of interest income of \$23,811 and sale of scrap of \$15,232. In 2020, non-operating expenses consist of interest expense of \$31,390. In 2019, non-operating expenses consist of interest expense of \$34,273.

CAPITAL EXPENDITURES

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital assets	\$ 14,096,452	\$ 13,856,738	\$ 13,585,151
Accumulated depreciation	<u>(6,288,228)</u>	<u>(5,928,166)</u>	<u>(5,600,845)</u>
	\$ <u>7,808,224</u>	\$ <u>7,928,572</u>	\$ <u>7,984,306</u>

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2020 AND 2019

In 2019, the District began a waterline extension project which was temporarily suspended in 2020 due to the coronavirus pandemic. Current plans are to resume the project in early 2022 when it is safe to contact landowners in the area. Acquisitions of equipment were financed from the District's reserve funds in 2020 and 2019. Contributions to capital amounted to \$51,735 in 2020 and \$20,861 in 2019 from new tap-on fees to existing lines.

BONDS AND CAPITAL LEASE OBLIGATIONS

Condensed Schedule of Debt

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Bonds	\$ 841,824	\$ 919,256	\$ 991,688
Capital lease obligations	<u>-</u>	<u>-</u>	<u>100,000</u>
Total	\$ <u>841,824</u>	\$ <u>919,256</u>	\$ <u>1,091,688</u>

The District made all its scheduled debt payments during 2020 and 2019.

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

The District experience significant new growth from new meter installations on existing waterlines during 2020. The growth is attributed to low interest rates and the increase in new housing starts in Clark County and is expected to continue in 2021.

The District purchases water from Winchester Municipal Utilities and Kentucky American Water Company for distribution to District customers. Water rate increases by these supplies are passed on to District customers as they occur. During 2020, the District's water rates did not increase.

Due to the increases in transmission costs and other operating expenses the District has operated at a loss for the past several years. However, it is not in the District's best financial interest to continue these losses. Therefore, the District will petition the Kentucky Public Service Commission for a rate increase in early 2021.

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact East Clark County Water District, 118 Hopkins Street, Winchester, KY 40392 or by phone at (859) 745-1458 or by email at wdballard@bellsouth.net.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 592,048	\$ 560,391
Investments	1,109,112	1,088,698
Receivables:		
Customer accounts	112,557	94,678
Unbilled	35,760	47,744
Accrued interest	3,549	9,820
Inventory, at cost	34,297	30,150
Prepaid expenses	<u>16,921</u>	<u>16,491</u>
Total current assets	<u>1,904,244</u>	<u>1,847,972</u>
Restricted assets:		
Cash and cash equivalents	<u>82,544</u>	<u>88,592</u>
Total restricted assets	<u>82,544</u>	<u>88,592</u>
Capital assets:		
Property, plant and equipment, net of depreciation	7,641,806	7,768,154
Construction in progress	76,374	70,374
Land	<u>90,044</u>	<u>90,044</u>
Total capital assets	<u>7,808,224</u>	<u>7,928,572</u>
Total assets	<u>9,795,012</u>	<u>9,865,136</u>
Deferred outflows of resources	<u>325,445</u>	<u>258,948</u>
Total assets and deferred outflows of resources	<u><u>\$ 10,120,457</u></u>	<u><u>\$ 10,124,084</u></u>

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2020 AND 2019

LIABILITIES AND NET POSITION

	<u>2020</u>	<u>2019</u>
Current liabilities:		
Accounts payable, trade	\$ 6,723	\$ 7,474
Accrued compensated absences	25,977	21,359
Accrued interest payable	14,342	18,965
Accrued liabilities	23,342	23,036
Lease obligations - current portion	-	-
Refundable customer deposits	128,439	109,129
Revenue bonds - current portion	70,000	75,000
	<hr/>	<hr/>
Total current liabilities	268,823	249,963
	<hr/>	<hr/>
Long-term liabilities:		
Revenue bonds net of current portion	771,824	844,256
Net OPEB liability	277,159	182,475
Net pension liability	880,583	763,156
	<hr/>	<hr/>
Total long-term liabilities	1,929,566	1,794,887
	<hr/>	<hr/>
Total liabilities	2,198,389	2,044,850
	<hr/>	<hr/>
Deferred inflows of resources	69,693	102,845
	<hr/>	<hr/>
Net Position		
Net Investment in capital assets	6,966,400	7,009,316
Restricted:		
Restricted for debt retirement	117,001	117,001
Restricted for plant renewal and replacement	19,200	19,200
Unrestricted	749,774	830,872
	<hr/>	<hr/>
Total net position	7,852,375	7,976,389
	<hr/>	<hr/>
Total liabilities, net position and deferred inflows of resources	<u>\$ 10,120,457</u>	<u>\$ 10,124,084</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Water sales	\$ 1,446,472	\$ 1,434,116
Other operating income	<u>17,937</u>	<u>45,582</u>
Total operating revenues	<u>1,464,409</u>	<u>1,479,698</u>
Operating expenses		
Transmission, distribution and services	491,009	441,262
Purchased water	364,069	349,338
General and administrative	416,917	394,817
Depreciation	<u>360,062</u>	<u>348,298</u>
Total operating expenses	<u>1,632,057</u>	<u>1,533,715</u>
Operating income	<u>(167,648)</u>	<u>(54,017)</u>
Non-operating revenues (expenses):		
Interest income	23,289	23,811
Customer connection fees	51,735	20,861
Gain on disposal of assets	-	15,232
Interest expense	<u>(31,390)</u>	<u>(34,273)</u>
Total non-operating revenues (expenses)	<u>43,634</u>	<u>25,631</u>
Change in net position	(124,014)	(28,386)
Net position at the beginning of the year	<u>7,976,389</u>	<u>8,004,775</u>
Net position at the end of the year	<u><u>\$ 7,852,375</u></u>	<u><u>\$ 7,976,389</u></u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,464,409	\$ 1,476,212
Cash payments to suppliers for goods and services	(495,230)	(543,408)
Cash payments to employees and professional contractors for services	<u>(649,644)</u>	<u>(578,706)</u>
Net cash provided by operating activities	<u>319,535</u>	<u>354,098</u>
Cash flows from capital and related financing activities:		
Principal payments on bonds and lease obligations	(75,000)	(172,432)
Interest payments on bonds and lease obligations	(31,390)	(34,273)
Purchase of fixed assets	(199,167)	(234,663)
Equipment purchased	(40,547)	(37,804)
Disposal of equipment	-	(20,977)
Sale of surplus equipment	-	15,232
Customer connection fees	<u>51,735</u>	<u>20,861</u>
Net cash used by capital and related financing activities	<u>(294,369)</u>	<u>(464,056)</u>
Cash flows from investing activities:		
Sale (acquisition) of unrestricted investments	(20,414)	83,869
Interest received on cash deposits and investments	<u>20,857</u>	<u>23,811</u>
Net cash provided by investing activities	<u>443</u>	<u>107,680</u>
Increase (decrease) in cash and cash equivalents	25,609	(2,278)

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Increase (decrease) in cash and cash equivalents (from page 11)	25,609	(2,278)
Cash and cash equivalents at the beginning of the year	<u>648,983</u>	<u>651,261</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 674,592</u></u>	<u><u>\$ 648,983</u></u>
Reconciliation of cash and cash equivalents at the end of the year		
Unrestricted cash and cash equivalents	\$ 592,048	\$ 560,391
Restricted cash and cash equivalents	<u>82,544</u>	<u>88,592</u>
Total cash and cash equivalents at the end of the year	<u><u>\$ 674,592</u></u>	<u><u>\$ 648,983</u></u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ (167,648)	\$ (54,017)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	360,062	348,298
(Increase) decrease in:		
Customer accounts receivable	(17,879)	3,486
Unbilled receivable	11,984	(7,991)
Other receivables	-	4,076
Interest receivable	6,271	(1,901)
Inventory	(4,147)	1,403
Prepaid expenses	(430)	1,104
Changes in deferred outflows of resources	(33,152)	(722)
Increase (decrease) in:		
Accounts payable, trade accounts	(751)	(26,768)
Accrued liabilities	306	5,147
Accrued interest payable	(4,623)	-
Accrued compensated absences	4,618	2,552
Changes in net pension liability	117,427	100,105
Changes in net OPEB liability	94,684	(10,804)
Changes in deferred inflows of resources	(66,497)	(16,477)
Customer deposits	<u>19,310</u>	<u>6,607</u>
Net cash provided by operating activities	<u><u>\$ 319,535</u></u>	<u><u>\$ 354,098</u></u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Clark County Water District is a "Class B" water district located in Clark County, Kentucky, with principal offices located at 118 Hopkins Lane, Winchester, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a five-member commission consisting of a chairman and four commissioners, all appointed by Clark County Fiscal Court. Water is purchased from Winchester Municipal Utilities and Kentucky American Water Company and resold to approximately 2,400 residential and commercial customers.

Basis of Accounting and Measurement Focus

The District is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the public on a continuing basis are financed primarily through user charges.

The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water to customers in connection with the District's ongoing operations. The principal operating revenues are charges to customers for water sales and services. Operating expenses include the cost of purchased water and other related service expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues and expenses generally result from contracts with other entities to move existing water lines as required by road and railroad maintenance and improvements.

Property and Equipment

The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2020 and 2019.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets. Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

Lines and storage	50 years
Building	30 years
Pumps and treatment equipment	20 years
Maintenance equipment and vehicles	3-10 years
Office furniture and equipment	3-5 years

Capital Grants and Subsidies

The purchase of property and equipment acquired by grants and subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as non-operating revenue. These grants and subsidies are not subject to repayment. Certain plant assets have been contributed by customers. These contributions are not subject to repayment.

Receivables

All receivables are reported at their gross value. Estimated un-billed revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. No allowance for doubtful accounts is provided. The District identifies and writes off uncollectible accounts as they occur. Amounts written off as of December 31, 2020 and 2019 were \$4,526 and \$2,550, respectively.

Vacation, Sick Leave, and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Paid vacation time accrues at the rate of one to three weeks based on the length of employment. Unused vacation time may be carried forward from one year to the next with certain limitations. Other compensated absences do not vest and are recorded as expenditures when they are paid.

Pensions

GASB Statement No. 68 requires recognition of the employer's (the District) obligation for the net long-term pension liabilities, deferred inflows of resources, deferred outflows of resources, and pension expense associated with both the cost-sharing and single-employer plans offered to District employees. Statement No. 68 also prescribes the accounting and reporting requirements for measuring and reporting these liabilities. The District reports its proportionate share of the collective balances and information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position, based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions (Continued)

More information about these plans and the related balances is provided in Note 7 – County Employee Retirement System (CERS). KRS publishes a CAFR that includes the CERS plans which is available on their website at <https://kyret.ky.gov/About/Board-of-Trustees/Pages/CAFR-and-SAFR.aspx>.

Other Postemployment Benefits (OPEB)

Beginning in fiscal year 2018, the District implemented GASB Statement No. 75, which requires recognition of the employer's (the District) obligation for the net long-term OPEB liabilities, deferred inflows of resources, deferred outflows of resources, and OPEB expense associated with both the cost-sharing and single-employer plans offered to District employees. The District reports its proportionate share of the collective balances for the cost-sharing plan and information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position, based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. More information about these plans and the related balances is provided in Note 8—Other Postemployment Benefit Plans. CERS OPEB plans are included in the KRS CAFR published on their website at <https://kyret.ky.gov/About/Board-of-Trustees/Pages/CAFR-and-SAFR.aspx>. The GASB 68 and 75 actuary reports are available at <https://kyret.ky.gov/Employers/GASB/Pages/default.aspx>.

Cash and Cash Equivalents

The District includes in cash and cash equivalents, cash on hand and unrestricted cash in checking, money market accounts, federated treasury obligation funds, and unrestricted certificates of deposit with maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market value on a first-in, first-out basis.

Investments

Investments consist of certificates of deposits with maturity dates of three months or more. Management believes the face value of the certificates approximates their market value. Certificates of deposit in excess of FDIC insurance are collateralized by securities held by the pledging institution.

Interest

Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2020 and 2019.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

The Statement of Net Position includes a separate section for Deferred Outflows of Resources. This represents the usage of net position applicable to future periods and will be recognized as expenditures in the future period to which it applies. This category includes amounts related to pensions and other post-employment benefits (OPEB) for certain actuarially determined differences between projected and actual investment earnings and/or other differences between projected and actual demographic experience, as well as contributions made by the District subsequent to the measurement date.

The Statement of Net Position includes a separate section for Deferred Inflows of Resources. This represents the acquisition of net position applicable to future periods and will be recognized as revenue in the future period to which it applies. This category includes amounts related to pensions and OPEB for certain actuarially determined differences between projected and actual demographic experience and/or projected and actual investment earnings.

Net Position Classifications

The District records restrictions for portions of its net position which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriation. Unrestricted portions of net position indicate amounts which are available for appropriation in future periods. Restrictions in net position are classified as follows:

- **Net Investment in Capital Assets** includes the District's capital assets, (net of accumulated depreciation) reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The net investment in capital assets also reflects any related balances in deferred outflows or inflows of resources.
- **Restricted for Debt Service** includes assets that have been set aside as required by statute or bond covenant for the future payment of the District's Debt.
- **Restricted for Plant Renewal and Replacement** includes assets that have been set aside for future additions, repairs or replacement of property, plant or infrastructure.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

New Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. This statement establishes criteria for identifying fiduciary activities for all state and local governments. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GASB 84 is effective for reporting periods beginning after December 15, 2019. The District has no fiduciary activities that meet the definitions of GASBS No. 84.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

GASB Statement No. 89, *Accounting for Interest Cost before the End of a Construction Period* (GASB 89), the objectives of this Statement are 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement establishes the criteria for accounting requirements for interest cost incurred before the end of a construction period. GASB 89 will be effective for reporting periods beginning after December 15, 2019. The District has determined there is no material financial impact of the implementation of GASBS No. 89.

Recent Pronouncements

GASB Statement No. 87, *Leases* (GASB 87), increases the usefulness of governments' financial statements by requiring recognition in the statements of certain leased assets and related liabilities that previously were classified as operating leases which recognized inflows or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings arrangements for the right to use an underlying asset. GASB 87 will be effective for reporting periods beginning after June 15, 2021. GASBS No. 87 will only change the title of "capital leases" to "financed purchases" in the District's financial reporting.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2022. This standard will require similar recognition of the right-to-use a subscription to intangible assets and the corresponding subscription liability that is provided for long-term leases in GASBS No. 87. The District will review its current IT subscription services to evaluate the impact of this standard, but since the recognized value for the intangible assets is generally the same as the corresponding subscription liability, there will be minimal financial impact for the District.

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS

The District investment policies conform to state statutes. The District deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities of one year with banks. Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky Revenue Bonds. The District's deposits and investments are collateralized with securities held by the bank's trust department in the District's name or letter of credit held by a third party in the District's name.

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the District's deposits and/or investments may not be returned to it. The District's policy on custodial credit risk requires banks to pledge additional bank assets as collateral on District's deposits that exceed FDIC insurance.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS (CONTINUED)

As of December 31, 2020, and 2019, District's total deposits at banks of \$ 1,783,705 and \$1,737,680 respectively, were exposed to custodial credit risk as follows:

	<u>2020</u>	<u>2019</u>
Insured, collateral held by third party in the District's name	\$ 500,000	\$ 500,000
Insured, collateral held by pledging bank's trust department in the District's name	<u>1,307,686</u>	<u>1,332,911</u>
	\$ <u>1,807,686</u>	\$ <u>1,832,911</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District's fair value measurements are all based upon level 1 inputs.

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

The Bond Resolutions require the creation of various separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions follows:

Revenue Fund

All income to the District is deposited to the Revenue Fund, and then transferred to the other funds as indicated below.

Bond and Interest Sinking Funds and Sinking Fund Reserves

The Bond and Interest Sinking Funds were established to provide sources of funds for the payment of bond principal and interest, currently due. Each month funds equal to the total of (1) one-sixth of the next succeeding semiannual interest payment plus (2) one-twelfth of the next annual bond principal payments are to be transferred to the funds. For the years ended December 31, 2020 and 2019 the required Sinking Fund Reserve balances were \$117,001 and \$117,001, respectively.

Depreciation Reserve Fund

The Depreciation Reserve Fund was established to provide funds for extraordinary repairs, betterments and expansion. The District is required to deposit \$160 into the fund each month until the accumulated balance equals \$19,200. Funds may be used as needed, but the balance must be restored to \$19,200, as soon as possible, so long as any bonds are outstanding and unpaid.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH (CONTINUED)

Operation and Maintenance Fund

Monthly sums, sufficient to meet the current expenses of operating and maintaining the system, are to be transferred from the Revenue Fund. The balance shall not be in excess of an amount sufficient to cover anticipated expenditures for a two-month period, which is approximately \$150,000. The balances as of December 31, 2020 and 2019 were \$ 67,605 and \$86,855, respectively.

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Activity for plant and equipment, which is capitalized by the District for the year ended December 31, 2020 and 2019, is summarized below:

	Balance Dec. 31, 2019	Additions	Retirements	Balance Dec. 31, 2020
Non depreciable assets:				
Land	\$ 90,044	\$ -	\$ -	\$ 90,044
Construction in Progress	70,374	6,000	-	76,374
Total non-depreciable assets	<u>160,418</u>	<u>6,000</u>	<u>-</u>	<u>166,418</u>
Depreciable assets:				
Buildings and improvements	581,152	-	-	581,152
Pumps	98,539	-	-	98,539
Lines and storage	11,271,913	141,432	-	11,413,345
Meters	1,112,956	51,735	-	1,164,691
Office equipment	90,209	-	-	90,209
Vehicles	259,402	-	-	259,402
Maintenance equipment	282,149	40,547	-	322,696
Total depreciable assets	<u>13,696,320</u>	<u>233,714</u>	<u>-</u>	<u>13,930,034</u>
Less Accumulated depreciation:				
Buildings and improvements	245,643	22,374	-	268,017
Pumps	75,594	2,841	-	78,435
Lines and storage	4,624,374	238,015	-	4,862,389
Meters	603,863	55,298	-	659,161
Office equipment	39,024	6,288	-	45,312
Vehicles	137,825	19,192	-	157,017
Maintenance equipment	201,843	16,054	-	217,897
Total accum. Depreciation	<u>5,928,166</u>	<u>360,062</u>	<u>-</u>	<u>6,288,228</u>
Depreciable assets, net	<u>7,768,154</u>	<u>(126,348)</u>	<u>-</u>	<u>7,641,806</u>
Total capital assets, net of depreciation	\$ <u>7,928,572</u>	\$ <u>(120,348)</u>	\$ <u>-</u>	\$ <u>7,808,224</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Balance <u>Dec. 31, 2018</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>Dec. 31, 2019</u>
Non depreciable assets:				
Land	\$ 90,044	\$ -	\$ -	\$ 90,044
Construction in Progress	<u>24,600</u>	<u>45,774</u>	<u>-</u>	<u>70,374</u>
Total non-depreciable assets	<u>114,644</u>	<u>45,774</u>	<u>-</u>	<u>160,418</u>
Depreciable assets:				
Buildings and improvements	581,152	-	-	581,152
Pumps	98,539	-	-	98,539
Lines and storage	11,103,803	168,110	-	11,271,913
Meters	1,092,095	20,861	-	1,112,956
Office equipment	51,010	39,199	-	90,209
Vehicles	280,379	-	20,977	259,402
Maintenance equipment	<u>263,529</u>	<u>18,620</u>	<u>-</u>	<u>282,149</u>
Total depreciable assets	<u>13,470,507</u>	<u>246,790</u>	<u>20,977</u>	<u>13,696,320</u>
Less Accumulated depreciation:				
Buildings and improvements	240,715	4,928	-	245,643
Pumps	72,753	2,841	-	75,594
Lines and storage	4,383,336	241,038	-	4,624,374
Meters	549,939	53,924	-	603,863
Office equipment	37,073	1,951	-	39,024
Vehicles	144,879	13,923	20,977	137,825
Maintenance equipment	<u>172,150</u>	<u>29,693</u>	<u>-</u>	<u>201,843</u>
Total accum. Depreciation	<u>5,600,845</u>	<u>348,298</u>	<u>20,977</u>	<u>5,928,166</u>
Depreciable assets, net	<u>7,869,662</u>	<u>(101,508)</u>	<u>-</u>	<u>7,768,154</u>
Total capital assets, net of depreciation	\$ <u>7,984,306</u>	\$ <u>(55,734)</u>	\$ <u>-</u>	\$ <u>7,928,572</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 5 – LONG TERM DEBT AND LEASES

The District issues revenue bonds to finance improvements and extensions to water lines. During 2020 and 2019 the District issued no new revenue bonds.

At December 31, 2020 and 2019, East Clark County Water District had the following long-term debt and leases outstanding:

2020 Bonds:

<u>Description</u>	<u>Balance Dec. 31, 2019</u>	<u>New Issue</u>	<u>Principal Payment</u>	<u>Balance Dec. 31, 2020</u>	<u>Due within one year</u>
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable January 1 and July 1	\$ 475,000	\$ -	\$ 35,000	\$ 440,000	\$ 35,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds, with interest of 2.15% to 4.275% payable January 1 and July 1	355,000	-	25,000	330,000	25,000
East Clark County Water District Water Works Refunding Bonds, Series 2013C, with interest of 2.3% to 4.8% payable January 1 and July 1	70,000	-	15,000	55,000	10,000
Bond Premium	<u>19,256</u>	<u>-</u>	<u>2,432</u>	<u>16,824</u>	<u>-</u>
	\$ <u><u>919,256</u></u>	\$ <u><u>-</u></u>	\$ <u><u>77,432</u></u>	\$ <u><u>841,824</u></u>	\$ <u><u>70,000</u></u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

2019 Bonds:

The debt service on the bonds is as follows:

<u>Description</u>	<u>Balance Dec. 31, 2018</u>	<u>New Issue</u>	<u>Principal Payment</u>	<u>Balance Dec. 31, 2019</u>	<u>Due within one year</u>
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable January 1 and July 1	\$ 510,000	\$ -	\$ 35,000	\$ 475,000	\$ 35,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds, with interest of 2.15% to 4.275% payable January 1 and July 1	380,000	-	25,000	355,000	25,000
East Clark County Water District Water Works Refunding Bonds, Series 2013C, with interest of 2.3% to 4.8% payable January 1 and July 1	80,000	-	10,000	70,000	15,000
Bond Premium	<u>21,451</u>	<u>-</u>	<u>2,195</u>	<u>19,256</u>	<u>-</u>
	\$ <u>991,451</u>	\$ <u>-</u>	\$ <u>72,195</u>	\$ <u>919,256</u>	\$ <u>75,000</u>

Due the year
ending
December 31,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 70,000	\$ 32,759	\$ 102,759
2022	80,000	29,959	109,959
2023	80,000	26,871	106,871
2024	85,000	23,659	108,659
2025	75,000	20,459	95,459
2026-2030	400,000	54,977	458,477
2031	<u>35,000</u>	<u>1,496</u>	<u>36,496</u>
	\$ <u>825,000</u>	\$ <u>190,180</u>	\$ <u>1,018,680</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

Capital Leases

The District is obligated under financing arrangements accounted for as capital leases. These leases were entered to fund the development of waterlines. Capital lease obligations and changes for 2020 and 2019 are as follows:

	Balance			Balance	Due in One
	December 31, 2018	Additions	Payments	December 31, 2019	Year
KACO #3	100,000	-	100,000	-	-
	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -

All capital leases were paid in full as of December 31, 2019.

NOTE 6 – INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and customers; or acts of God. The District insures against these risks through insurance policies obtained from commercial vendors. The District has pooled its risk for worker's compensation insurance. The District pays an annual premium for insurance coverage and is liable for additional premium assessments as determined by the pool. At December 31, 2020 and 2019, no additional premium assessment had been made. Other insurable risks are covered by policies with conventional insurance companies.

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS)

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan Description

Employees working for city, county, and other local governments are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the 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. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits Provided

CERS provides retirement, health insurance, death and disability benefits to Plan members and beneficiaries. Retirement benefits are classified by the Tier in which the member participates. Tier 1 and Tier 2 are defined benefit plans with variations in how the benefits are calculated. Tier 3 is a cash balance plan that includes guaranteed rates of return for member contributions. Tier 3 benefits are based on accumulated contributions and earnings credited to the member's account.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Benefits Provided (Cont'd)

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

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

Cost of living adjustments are provided at the discretion of the General Assembly. Beginning in 2015, COLAs were suspended until the retirement funds reach 100% funded status.

Retirement benefits are calculated using factors for the number of years' service multiplied by the "final compensation." Reduced benefits are based on factors of both of these components. Again, the definitions of "final compensation" and the benefit factor for years' of service depend on the Tier in which the member participates. Benefits in Tier 3, the cash balance plan, are limited to the accumulated contributions and earnings credited to the member's account, similar to a defined contribution plan. There are, however, minimum rates of return that are guaranteed and funded with employer contributions when actual earnings are less than these minimum rates.

Tier 1	Final compensation	Average of highest 5 fiscal years
	Benefit factor	2.2% prior to 8/1/2004 or 2% after 8/1/2004
	Interest on member accounts	2%
Tier 2	Final compensation	5 complete fiscal years preceding retirement
	Benefit factor	Scale of 1.1% to 2% based on number of years of service
	Interest on member accounts	2.5%
Tier 3	Final compensation	N/A
	Benefit factor	N/A
	Interest on member accounts	4% plus 75% of earnings in excess of 4%
	Employer Pay Credit	4% of creditable compensation

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Benefits Provided (Cont'd)

Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are provided in a \$5,000 lump sum payment.

- Death benefits before retirement are based on the member's eligibility for normal or early retirement at the time of death, or five years of service if the member is under the age of 55, or 144 months of service if the member is no longer working for a participating agency.
- If beneficiaries are eligible for benefits, they may choose a lifetime monthly benefit or a lump sum payment for an actuarial refund, or annuities for 5 or 10 years of monthly payments.
- If the beneficiary is not eligible for monthly benefits, a lump sum payment of the member's contributions and accumulated interest will be paid. Beneficiaries of Tier 3 members will also include the employer pay credit if the member has at least 5 years of service at the time of death.
- If the nonhazardous member dies as a result of a duty-related death, the decedent's beneficiary will receive the higher of the normal death benefit or \$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.
- Dependent children also receive benefits for duty-related deaths as a monthly benefit equal to 10% of the member's monthly final rate of pay. But dependent children's benefits cannot total more than 40% of the monthly final rate of pay.

Contributions

Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

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

At December 31, 2020, ECCWD reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by ECCWD as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with ECCWD was as follows:

ECCWD 's proportionate share of the net pension liability 12/31/20	\$ 880,583
ECCWD 's proportionate share of the net pension liability 12/31/19	\$ 763,156

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

The net pension liability for each plan was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to the measurement date of June 30, 2020. ECCWD's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2020 and 2019 the District's proportion was .011481% and .010851% respectively. For the years ended December 31, 2020 and 2019, ECCWD recognized pension expense of \$88,974 and \$80,758 respectively.

At December 31, 2020, ECCWD 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 experience	\$ 21,959	\$ -
Changes of assumptions	34,385	-
Net difference between projected and actual earnings on pension plan investments	38,170	16,135
Changes in proportion and differences between ECCWD's contributions and proportionate share of contributions	33,882	108
Contributions subsequent to the measurement date	<u>58,215</u>	<u>-</u>
Total	<u><u>\$ 186,611</u></u>	<u><u>\$ 16,243</u></u>

\$58,215 reported as deferred outflows of resources related to pensions resulting from ECCWD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

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

<u>Year ended June 30:</u>	
2021	\$ 54,145
2022	\$ 36,635
2023	\$ 12,253
2024	\$ 8,849

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

At December 31, 2019, ECCWD 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 experience	\$ 19,486	\$ 3,225
Changes of assumptions	77,240	-
Net difference between projected and actual earnings on pension plan investments	14,650	26,952
Changes in proportion and differences between ECCWD's contributions and proportionate share of contributions	17,182	6,472
Contributions subsequent to the measurement date	50,005	-
Total	<u>\$ 178,564</u>	<u>\$ 36,649</u>

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increase	Ranges from 3.30% to 11.55%, depending on years of service and classification
Inflation	2.30%
Payroll growth assumption	2%
Investment Rate of Return	6.25%, Net of Pension Plan Investment Expense, including Inflation

For CERS, mortality tables were revised based on an experience study completed in March 2019.

The mortality table used for active members was the PUB-2010 General Mortality table, for the non-hazardous system, and the PUB-2010 Public Safety Mortality table for the Hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the table used is the 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.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Actuarial Assumptions (Cont'd)

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years, at a minimum. The most recent analysis, performed for the period covering fiscal years 2014 through 2018, is outlined in a report dated April 18, 2019.

Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. However, the expected returns in the following table are based on ten-year yields developed by the investment consultant based on their capital market analysis prior to the impact of COVID.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Ten-Year Expected Real Rate of Return</u>
Growth:	62.50%	
U. S. Equity	18.75%	4.50%
International Equity	18.75%	5.25%
Private Credit	10.00%	6.65%
High Yield Credit	15.00%	3.90%
Liquidity:	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies:	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	

Discount rate

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

Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Discount rate (Cont'd)

Sensitivity of City's proportionate share of CERS net pension liability to changes in the discount rate—
The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
ECCWD's proportionate share of net pension liability:	\$ 1,085,951	\$ 880,583	\$ 710,531

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of the Kentucky Retirement Systems.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB)

GASB standards require the separation of healthcare benefits (OPEB) provided to retirees from the service-related pension benefits if these benefits are provided in conjunction with a defined benefit plan. As we noted in Note 1 — Summary of Significant Accounting Policies, GASB Statement No. 75 required ECCWD to recognize its' proportionate share of the collective net OPEB liability for the CERS cost-sharing plan for the fiscal year ended December 31, 2020.

Plan Description— CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance covered based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans.

Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

The monthly insurance benefit has been increased annually by a Cost-of-Living Adjustment (COLA) since July 2004.

	Participation before	
Tier 1	7/1/2003	Based on % for each year of service
	Participation after	Requires 10 years of service; \$10 per
	7/1/2003	month for each year of earned service
	Participation after	Requires 15 years of service for
Tier 2	9/1/2008	eligibility
	Benefit	\$10 per month for each year of service;
		adjusted by 1.5% annually
	Participation after	Requires 15 years of service for
Tier 3	1/1/2015	eligibility
	Benefit	\$10 per month for each year of service;
		adjusted by 1.5% annually

Funding Policy – CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2020 measurement period, CERS allocated 4.76% of the 24.06% actuarially required employer contribution rate for non-hazardous employees. In addition, 1% of the Tier 2 and Tier 3 employee contributions of 6% are allocated to the health insurance plan.

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

At December 31, 2020, ECCWD reported a liability for its proportionate share of the net OPEB liability for CERS. The amount recognized by ECCWD as its proportionate share of the net OPEB liability, the related Commonwealth support, and the total portion of the net OPEB liability that was associated with ECCWD were as follows:

ECCWD 's proportionate share of the net OPEB liability 12/31/20	\$ 277,159
ECCWD 's proportionate share of the net OPEB liability 12/31/19	\$ 182,475

The net OPEB liability for each plan was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2020, the measurement date.

ECCWD's proportion of the net OPEB liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2020 and 2019, ECCWD's proportion was 0.011478% and 0.010849% respectively.

For the year ended December 31, 2020 and 2019, ECCWD recognized an increase in OPEB expense of \$23,488 and a decrease in OPEB expense of \$8,656, respectively.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 46,307	\$ 46,344
Changes of assumptions	48,209	293
Net difference between projected and actual earnings on OPEB plan investments	14,868	5,655
Changes in proportion and differences between District contributions and proportionate share of contributions	15,092	1,158
District contributions subsequent to the measurement date	<u>14,358</u>	<u>-</u>
	<u>\$ 138,834</u>	<u>\$ 53,450</u>

\$14,358 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date for the 2020 plan year will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021.

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

Year ended June 30:

2021	\$19,051
2022	\$21,778
2023	\$16,547
2024	\$14,382
2025	(\$730)
Thereafter	-

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

At December 31, 2019, ECCWD reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 55,057
Changes of assumptions	53,996	361
Net difference between projected and actual earnings on OPEB plan investments	1,202	9,307
Changes in proportion and differences between District contributions and proportionate share of contributions	8,969	1,471
District contributions subsequent to the measurement date	<u>16,217</u>	<u>-</u>
	<u>\$ 80,384</u>	<u>\$ 66,196</u>

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.05% - 11.55%, depending on years of service and classification
Inflation rate	2.30%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Ages 65 and Older	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years
Municipal Bond Index Rate	2.45%
Discount Rate	5.34% Non-hazardous

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

Mortality rates for active members were based on the PUB-2010 General Mortality table, for the nonhazardous members and the PUB-2010 Public Safety Mortality table for the hazardous members, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. Post-retirement mortality rates (non-disabled) used 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 PUB-2010 Disabled Mortality Table is used for post-retirement mortality for disabled retirees 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 remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2020 valuation were based on a review of recent plan experience for the period covering fiscal years 2014 through 2018, is outlined in a report dated April 18, 2019.

The investment return, price inflation, and payroll growth assumption were adopted by the Board in May 2019 for use with the June 30, 2020 valuation in order to reflect future economic expectations.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major class are summarized in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Ten-Year Expected Real Rate of Return</u>
Growth:	62.50%	
U. S. Equity	18.75%	4.50%
International Equity	18.75%	5.25%
Private Credit	10.00%	6.65%
High Yield Credit	15.00%	3.90%
Liquidity:	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies:	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	

Discount rate

The single discount rate of 5.34% for CERS nonhazardous was used to measure the total OPEB liability as of June 30, 2020. The Single discount rate is based on the expected rate of return on OPEB plan investments 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.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (CONTINUED)

Future contributions are projected in accordance with the current funding policy mandated in Ky Revised Statutes 61.565, as amended, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (23 years as of June 30, 2020) and the actuarial assumptions and methods adopted by the Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently included in the calculation of the System's actuarial determined contributions and any cost associated with the implicit subsidy is not paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents ECCWD's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.34% as well as what the proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

	<u>1% Decrease</u>		<u>Current Discount Rate</u>		<u>1% Increase</u>
	4.34%		5.34%		6.34%
ECCWD's proportionate share of net OPEB liability	\$ 356,068	\$	277,159	\$	212,348

In addition, GASBS No. 75 requires a sensitivity analysis for the healthcare trend rate for OPEB Plans using the same increase or decrease of 1% in the assumed healthcare cost trend rate. The following table presents the net OPEB liability of ECCWD with these adjustments.

	<u>1% Decrease</u>		<u>Current Health Care Trend Rate</u>		<u>1% Increase</u>
ECCWD's proportionate share of net OPEB liability	\$ 214,590	\$	277,159	\$	353,087

OPEB plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of the Kentucky Retirement Systems.

NOTE 9 - PURCHASED WATER

The District entered into a written agreement to purchase a majority of its water from Winchester Municipal Utilities (WMU). The term of the contract is for forty years ending October 3, 2059 with the right to renew and extend for an additional twenty years. The District purchases water at \$1.72 per 100 cubic feet of water. This rate is subject to periodic increases by WMU. With the approval of the Public Service Commission, the District may pass these rate increases along to its customers. Water is delivered to the District by meters maintained by WMU.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 10 – SUBSEQUENT EVENT

The district has evaluated subsequent events through March 31, 2021, the date on which these financial statements were available to be issued.

NOTE 11 – RISKS AND UNCERTAINTIES

During the year ended December 31, 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to ECCWD as of March 31, 2021, management does not believe that a material impact on ECCWD's financial position and results of future operations is reasonably possible.

REQUIRED SUPPLEMENTARY INFORMATION

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Reporting Fiscal Year (Measurement Date) 12/31/2020 (6/30/20)	Reporting Fiscal Year (Measurement Date) 12/31/2019 (6/30/19)	Reporting Fiscal Year (Measurement Date) 12/31/2018 (6/30/18)	Reporting Fiscal Year (Measurement Date) 12/31/2017 (6/30/17)	Reporting Fiscal Year (Measurement Date) 12/31/2016 (6/30/16)	Reporting Fiscal Year (Measurement Date) 12/31/2015 (6/30/15)
COUNTY EMPLOYEES' RETIREMENT SYSTEM:						
ECCWD's proportion of the net pension liability	0.011481%	0.010851%	0.010887%	0.010048%	0.011160%	0.010960%
ECCWD's proportionate share of the net pension liability	\$ 880,583	\$ 763,156	\$ 663,051	\$ 588,140	\$ 547,303	\$ 471,091
ECCWD's covered-employee payroll	\$ 282,749	\$ 263,115	\$ 267,268	\$ 238,770	\$ 255,169	\$ 263,636
ECCWD's proportionate share of the net pension liability as a percentage of its covered-employee payroll	311.44%	290.05%	248.08%	246.32%	214.49%	178.69%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED DECEMBER 31, 2020**

	2020	2019	2018	2017	2016	2015
COUNTY EMPLOYEES' RETIREMENT SYSTEM:						
Contractually required contribution	\$ 58,215	\$ 44,397	\$ 39,071	\$ 34,127	\$ 31,581	\$ 32,731
Contributions in relation to the contractually required contribution	58,215	44,397	39,071	34,127	31,581	32,731
Contribution deficiency (excess)	-	-	-	-	-	-
ECCWD's covered-employee payroll	\$ 301,632	\$ 263,115	\$ 267,268	\$ 238,770	\$ 255,169	\$ 263,636
ECCWD's contributions as a percentage of its covered-employee payroll	19.30%	16.87%	14.62%	14.29%	12.38%	12.42%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not ECCWD's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
FOR THE YEAR ENDED DECEMBER 31, 2020**

COUNTY EMPLOYEES' RETIREMENT SYSTEM:

Actuarial Methods and Assumptions:

The actuarially determined contribution rates are determined on an annual basis, based on a measurement two years prior to the District's fiscal year. In July 2013, the amortization period of the unfunded liability was reset to a closed 30-year period. The following actuarial assumptions were revised for the June 30, 2020 valuation:

Item	CERS Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2018
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level Percent of Pay
Amortization Period:	25 Years, Closed
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 11.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

Changes of Benefit Terms -

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

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

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

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Reporting Fiscal Year (Measurement Date) 12/31/2020 (6/30/20)	Reporting Fiscal Year (Measurement Date) 12/31/2019 (6/30/19)	Reporting Fiscal Year (Measurement Date) 12/31/2018 (6/30/18)	Reporting Fiscal Year (Measurement Date) 12/31/2017 (6/30/17)
COUNTY EMPLOYEES' RETIREMENT SYSTEM:				
ECCWD's proportion of the net OPEB liability	0.011478%	0.010849%	0.010887%	0.010048%
ECCWD's proportionate share of the net OPEB liability	\$ 277,159	\$ 182,475	\$ 193,279	\$ 201,999
ECCWD's covered-employee payroll	\$ 300,791	\$ 279,620	\$ 279,813	\$ 238,770
ECCWD's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	92.14%	65.26%	69.07%	84.60%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.40%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - OPEB
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
COUNTY EMPLOYEES' RETIREMENT SYSTEM:				
Contractually required contribution	\$ 14,358	\$ 17,570	\$ 14,989	\$ 11,572
Contributions in relation to the contractually required contribution	<u>14,358</u>	<u>17,570</u>	<u>14,989</u>	<u>11,572</u>
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 301,639	\$ 279,620	\$ 279,813	\$ 238,770
District's contributions as a percentage of its covered-employee payroll	4.76%	6.28%	5.36%	4.85%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
FOR THE YEAR ENDED DECEMBER 31, 2020**

COUNTY EMPLOYEES' RETIREMENT SYSTEM:

Actuarial Methods and Assumptions:

The actuarially determined contribution rates are determined on an annual basis, based on a measurement two years prior to the District's fiscal year. The following actuarial assumptions were revised for the June 30, 2020 valuation:

Item	CERS Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2018
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level Percent of Pay
Amortization Period:	25 Years, Closed
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 11.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

SUPPLEMENTARY INFORMATION

EAST CLARK COUNTY WATER DISTRICT
OTHER SUPPLEMENTARY INFORMATION
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019

	2020 Budget	2020 Actual	Favorable (Unfavorable)	2019 Budget	2019 Actual	Favorable (Unfavorable)
Operating revenues:						
Water sales	\$ 1,452,000	\$ 1,446,472	\$ (5,528)	\$ 1,425,000	\$ 1,434,116	\$ 9,116
Other operating income	20,000	17,937	(2,063)	45,000	45,582	582
Total operating revenues	1,472,000	1,464,409	(7,591)	1,470,000	1,479,698	9,698
Operating expenses:						
Operation and maintenance	1,158,000	1,265,431	(107,431)	1,164,000	1,160,177	3,823
Depreciation and amortization	340,000	360,062	(20,062)	345,000	348,298	(3,298)
Taxes	28,000	25,374	2,626	26,000	25,240	760
Total operating expenses	1,526,000	1,650,867	(124,867)	1,535,000	1,533,715	1,285
Operating income	(54,000)	(186,458)	(132,458)	(65,000)	(54,017)	10,983
Non-operating revenues (expenses):						
Interest income	30,000	23,289	(6,711)	23,000	23,811	811
Sale/disposal of surplus equipment	-	51,735	51,735	14,000	20,861	6,861
State grants and customer connection fees	50,000	-	(50,000)	21,000	15,232	(5,768)
Interest expense	(36,000)	-	36,000	(36,000)	-	36,000
Non-operating expenses	-	(31,390)	(31,390)	-	(34,273)	(34,273)
Total non-operating revenues (expenses)	44,000	43,634	(366)	22,000	25,631	3,631
Change in net position	\$ (10,000)	\$ (142,824)	\$ (132,824)	\$ (43,000)	\$ (28,386)	\$ 14,614

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 364,069	\$ -	\$ -	\$ 364,069
Depreciation	-	-	-	360,062	360,062
Salaries	174,006	-	127,261	-	301,267
Employee benefits	174,093	-	127,324	-	301,417
Supplies	56,405	-	4,591	-	60,996
Repairs and maintenance	26,680	-	10,972	-	37,652
Outside services	15,860	-	6,965	-	22,825
Commissioners' salaries	-	-	29,000	-	29,000
Payroll tax expense	14,656	-	10,718	-	25,374
Professional fees	-	-	22,884	-	22,884
Utilities	22,155	-	8,986	-	31,141
Truck expense	18,027	-	77	-	18,104
Equipment rental	165	-	-	-	165
Insurance	-	-	32,053	-	32,053
Postage	-	-	15,478	-	15,478
Bad debts	-	-	4,526	-	4,526
Miscellaneous	-	-	5,952	-	5,952
Telephone	2,647	-	2,018	-	4,665
Dues and subscriptions	-	-	1,833	-	1,833
Loading station expense	502	-	-	-	502
Employee training and seminars	-	-	515	-	515
PSC assessment	-	-	3,063	-	3,063
Uniforms	-	-	2,537	-	2,537
Lab testing	4,623	-	-	-	4,623
Travel and meals expense	-	-	164	-	164
	<u>\$ 509,819</u>	<u>\$ 364,069</u>	<u>\$ 416,917</u>	<u>\$ 360,062</u>	<u>\$ 1,650,867</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 349,338	\$ -	\$ -	\$ 349,338
Depreciation	-	-	-	348,298	348,298
Salaries	164,774	-	124,200	-	288,974
Employee benefits	141,219	-	106,445	-	247,664
Supplies	48,590	-	6,723	-	55,313
Repairs and maintenance	21,908	-	9,852	-	31,760
Outside services	8,289	-	8,700	-	16,989
Technology	1,800	-	165	-	1,965
Commissioners' salaries	-	-	27,692	-	27,692
Payroll tax expense	14,392	-	10,848	-	25,240
Professional fees	-	-	22,075	-	22,075
Utilities	22,936	-	7,646	-	30,582
Truck expense	16,402	-	1,550	-	17,952
Equipment rental	1,982	-	-	-	1,982
Insurance	-	-	32,896	-	32,896
Postage	-	-	13,213	-	13,213
Bad debts	-	-	2,550	-	2,550
Miscellaneous	-	-	5,758	-	5,758
Telephone	3,375	-	1,834	-	5,209
Dues and subscriptions	-	-	2,439	-	2,439
Loading station expense	1,253	-	-	-	1,253
Employee training and seminars	-	-	4,610	-	4,610
PSC assessment	-	-	2,750	-	2,750
Uniforms	-	-	2,388	-	2,388
Lab testing	4,868	-	-	-	4,868
Travel and meals expense	-	-	483	-	483
	<u>\$ 451,788</u>	<u>\$ 349,338</u>	<u>\$ 394,817</u>	<u>\$ 348,298</u>	<u>\$ 1,544,241</u>

SUMMERS, MCCRARY & SPARKS, P.S.C.

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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 Board of Commissioners of
East Clark County Water District
Winchester, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the East Clark County Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the East Clark County Water District's basic financial statements, and have issued our report thereon dated March 31, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management for the District in a separate letter dated March 31, 2021.

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.

Summers, McCrary & Sparks, PSC

Winchester, Kentucky
March 31, 2020