

**EAST PENDLETON COUNTY
WATER DISTRICT
Falmouth, Kentucky**

**FINANCIAL STATEMENTS
December 31, 2020 and 2019**

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
East Pendleton County Water District
Falmouth, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the East Pendleton County Water District (the 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.

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 21-24 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.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 GASB, 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 March 18, 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 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 East Pendleton 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.

RFH

RFH, PLLC
Lexington, Kentucky
March 18, 2021

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

	2020	2019
ASSETS		
Current assets		
Cash	\$ 591,727	\$ 423,668
Customer accounts receivable, net	92,524	87,530
Inventory	<u>24,708</u>	<u>18,039</u>
Total current assets	<u>708,959</u>	<u>529,237</u>
Restricted assets		
Cash	417,710	411,975
Cash - construction	337,271	336,546
Certificates of deposit	<u>184,275</u>	<u>260,856</u>
Total restricted assets	<u>939,256</u>	<u>1,009,377</u>
Capital assets		
Property, plant and equipment - Water	7,488,113	7,383,917
Less: accumulated depreciation - Water	(3,788,979)	(3,663,575)
Property, plant and equipment - Sewer	38,351	38,351
Less: accumulated depreciation - Sewer	<u>(31,268)</u>	<u>(30,427)</u>
Total capital assets	<u>3,706,217</u>	<u>3,728,266</u>
Total assets	<u>5,354,432</u>	<u>5,266,880</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	154,463	189,862
Deferred outflows - OPEB	<u>143,042</u>	<u>86,747</u>
Total deferred outflows of resources	<u>297,505</u>	<u>276,609</u>
Total assets and deferred outflows of resources	<u>\$ 5,651,937</u>	<u>\$ 5,543,489</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 27,958	\$ 20,393
Accrued liabilities	14,530	11,421
Customer deposits	44,635	43,300
Accrued interest payable	11,613	12,528
Current portion of long-term debt	<u>88,680</u>	<u>88,081</u>
Total current liabilities	<u>187,416</u>	<u>175,723</u>
Noncurrent liabilities		
Net pension liability	957,973	857,961
Net OPEB liability	301,499	205,131
KIA notes payable, net of current portion	106,237	113,617
Bonds payable, net of current portion	<u>724,600</u>	<u>800,300</u>
Total noncurrent liabilities	<u>2,090,309</u>	<u>1,977,009</u>
Total liabilities	<u>2,277,725</u>	<u>2,152,732</u>
DEFERRED INFLOWS OF RESOURCES		
Defeasance on refunding	13,457	14,130
Deferred inflows - pension	-	17,456
Deferred inflows - OPEB	<u>50,956</u>	<u>71,732</u>
Total deferred inflows of resources	<u>64,413</u>	<u>103,318</u>
NET POSITION		
Net investment in capital assets	2,786,700	2,726,268
Restricted for debt service	364,662	438,406
Restricted for depreciation	237,323	234,425
Unrestricted	<u>(78,886)</u>	<u>(111,660)</u>
Total net position	<u>3,309,799</u>	<u>3,287,439</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,651,937</u>	<u>\$ 5,543,489</u>

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

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

	2020	2019
OPERATING INCOME		
Water sales	\$ 1,187,713	\$ 1,123,778
Sewer sales	21,616	20,174
Other revenue	<u>17,869</u>	<u>32,219</u>
Total operating income	<u>1,227,198</u>	<u>1,176,171</u>
OPERATING EXPENSES		
Water purchases	231,857	219,278
Pumping	32,399	37,445
Operation	287,162	275,299
Maintenance	1,613	347
General and administrative	509,028	464,519
Sewer expenses	<u>15,782</u>	<u>15,545</u>
Total operating expense	<u>1,077,841</u>	<u>1,012,433</u>
Operating income before depreciation	149,357	163,738
Depreciation expense	<u>(126,245)</u>	<u>(119,777)</u>
OPERATING INCOME	23,112	43,961
Non-operating income (expense)		
Interest income	5,617	7,968
Interest expense	<u>(30,315)</u>	<u>(32,051)</u>
Total non-operating income (expense)	<u>(24,698)</u>	<u>(24,083)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	(1,586)	19,878
Capital contributions		
Tap fees	<u>23,946</u>	<u>10,927</u>
Change in net position	22,360	30,805
Net position, beginning of year	<u>3,287,439</u>	<u>3,256,634</u>
NET POSITION, END OF YEAR	<u>\$ 3,309,799</u>	<u>\$ 3,287,439</u>

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

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,222,204	\$ 1,172,753
Payments to suppliers	(484,855)	(463,934)
Payments for employee services and benefits	<u>(450,394)</u>	<u>(425,611)</u>
Net cash provided by operating activities	<u>286,955</u>	<u>283,208</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Retirement of debt principal	(82,481)	(71,988)
Interest paid	(31,903)	(28,710)
Purchase of capital assets	(104,196)	(100,175)
Tap fees	<u>23,946</u>	<u>10,927</u>
Net cash (used in) capital and related financing activities	<u>(194,634)</u>	<u>(189,946)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (investment in) certificates of deposit	76,581	(3,030)
Interest income	<u>5,617</u>	<u>7,968</u>
Net cash provided by investing activities	<u>82,198</u>	<u>4,938</u>
NET INCREASE IN CASH	174,519	98,200
Cash, beginning of year	<u>1,172,189</u>	<u>1,073,989</u>
CASH, END OF YEAR	<u>\$ 1,346,708</u>	<u>\$ 1,172,189</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 23,112	\$ 43,961
Noncash items included in operating income:		
Depreciation	126,245	119,777
Net change in pension liability	117,955	118,404
Net change in OPEB liability	19,297	4,619
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables	(4,994)	(3,418)
(Increase) decrease in inventory	(6,669)	1,161
Increase (decrease) in accounts payable	7,565	(4,287)
Increase (decrease) in other payables	3,109	816
Increase (decrease) in customer deposits	<u>1,335</u>	<u>2,175</u>
Net cash provided by operating activities	<u>\$ 286,955</u>	<u>\$ 283,208</u>
Supplemental disclosure of cash flow information		
Non-cash capital and related financing information:		
Amortization of defeasance on refunding	<u>\$ 673</u>	<u>\$ 673</u>
Components of cash on the Statement of Net Position		
Cash	\$ 591,727	\$ 423,668
Restricted cash	417,710	411,975
Construction	<u>337,271</u>	<u>336,546</u>
	<u>\$ 1,346,708</u>	<u>\$ 1,172,189</u>

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

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

1. ORGANIZATION AND ACCOUNTING POLICIES

The East Pendleton County Water District (the District) was created and organized as a public body incorporated in Pendleton County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Pendleton County Fiscal Court to operate a water distribution system.

Reporting Entity

The East Pendleton County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

Basis of Accounting

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system in addition to customer deposits. These reserves are discussed in Note 5.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should be used first.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with an initial maturity of less than 90 days.

Accounts Receivable

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. The reserve at December 31, 2020 and 2019 totaled \$11,200 and \$3,500.

Inventory

The District's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance, repairs and new water lines. The inventory is stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the asset, which ranges from 7 - 62.5 years. Land and land rights are not subject to depreciation. Interest costs during construction of capital assets are capitalized as a part of the cost.

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Pensions

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.

Postemployment Benefits Other Than Pensions (OPEB)

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.

Estimates

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.

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through March 18, 2021, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2020, have not been evaluated by the District.

2. CASH 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.

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.

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

2. CASH AND INVESTMENTS (CONTINUED)

The District's deposits and investments at December 31, 2020 were undercollateralized by \$178,674. At December 31, 2019, they were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

Additionally, as of December 31, 2020 and 2019, the District had \$85,425 and \$85,955, respectively, in a money market account that is invested in government obligations.

The tables presented below are designed to disclose the level of custodial credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2020 and 2019. The categories of credit risk are defined as follows:

- (1) Insured or collateralized with securities held by the government or by its agent in the government's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name.
- (3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the government's name.

The level of custodial credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2020 were as follows:

Type of Deposit	Category			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 1,083,043	\$ -	\$ -	\$ 1,083,043	\$ 1,261,283
Certificates of deposit	<u>184,275</u>	<u>-</u>	<u>-</u>	<u>184,275</u>	<u>184,275</u>
	<u>\$ 1,267,318</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,267,318</u>	<u>\$ 1,445,558</u>

The level of custodial credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2019 were as follows:

Type of Deposit	Category			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 1,083,950	\$ -	\$ -	\$ 1,083,950	\$ 1,086,234
Certificates of deposit	<u>260,856</u>	<u>-</u>	<u>-</u>	<u>260,856</u>	<u>260,856</u>
	<u>\$ 1,344,806</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,344,806</u>	<u>\$ 1,347,090</u>

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

3. CAPITAL ASSETS

The following is a summary of capital asset activity during the year ended December 31, 2020:

	Balance 12/31/2019	Additions	Disposals	Balance 12/31/2020
Capital assets not depreciated:				
Organizational costs	\$ 7,200	\$ -	\$ -	\$ 7,200
Water land	16,157	-	-	16,157
Sewer land	<u>1,168</u>	<u>-</u>	<u>-</u>	<u>1,168</u>
Totals	<u>24,525</u>	<u>-</u>	<u>-</u>	<u>24,525</u>
Capital assets being depreciated:				
Water property and equipment	7,360,560	104,196	-	7,464,756
Sewer property and equipment	<u>37,183</u>	<u>-</u>	<u>-</u>	<u>37,183</u>
Totals	7,397,743	104,196	-	7,501,939
Less: accumulated depreciation	<u>3,694,002</u>	<u>126,245</u>	<u>-</u>	<u>3,820,247</u>
Depreciable assets, net	<u>3,703,741</u>	<u>(22,049)</u>	<u>-</u>	<u>3,681,692</u>
Total capital assets, net	<u>\$ 3,728,266</u>	<u>\$ (22,049)</u>	<u>\$ -</u>	<u>\$ 3,706,217</u>

The following is a summary of capital asset activity during the year ended December 31, 2019:

	Balance 12/31/2018	Additions	Disposals	Balance 12/31/2019
Capital assets not depreciated:				
Organizational costs	\$ 7,200	\$ -	\$ -	\$ 7,200
Water land	16,157	-	-	16,157
Sewer land	<u>1,168</u>	<u>-</u>	<u>-</u>	<u>1,168</u>
Totals	<u>24,525</u>	<u>-</u>	<u>-</u>	<u>24,525</u>
Capital assets being depreciated:				
Water property and equipment	7,354,590	100,175	(94,205)	7,360,560
Sewer property and equipment	<u>37,183</u>	<u>-</u>	<u>-</u>	<u>37,183</u>
Totals	7,391,773	100,175	(94,205)	7,397,743
Less: accumulated depreciation	<u>3,668,430</u>	<u>119,777</u>	<u>(94,205)</u>	<u>3,694,002</u>
Depreciable assets, net	<u>3,723,343</u>	<u>(19,602)</u>	<u>-</u>	<u>3,703,741</u>
Total capital assets, net	<u>\$ 3,747,868</u>	<u>\$ (19,602)</u>	<u>\$ -</u>	<u>\$ 3,728,266</u>

Depreciation expense totaled \$126,245 and \$119,777 for the years ended December 31, 2020 and 2019, respectively.

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

4. LONG-TERM DEBT

The following is a summary of the bonds and notes outstanding for the District for the years ended December 31:

Bonds and Notes	2020	2019
USDA, Rural Development Bond - \$195,000, dated 2/22/07 with payments through 2042, bearing interest at a rate of 4.125%.	\$ 159,100	\$ 162,600
USDA, Rural Development Bond - \$100,000, dated 2/22/07 with payments through 2044, bearing interest at a rate of 4.125%.	81,800	83,600
Kentucky Infrastructure Authority Loan - \$160,000 dated 6/1/14 with payments through 2033, bearing interest at a rate of 2.75%.	113,617	120,798
Kentucky Rural Water Finance Corp. Bond - \$895,000, dated 2/19/15 with payments through 2041, bearing interest at 2.25 – 3.625%.	<u>565,000</u>	<u>635,000</u>
Totals	919,517	1,001,998
Less: current portion of debt	<u>(88,680)</u>	<u>(88,081)</u>
Long-term debt	<u>\$ 830,837</u>	<u>\$ 913,917</u>

The annual requirements to amortize bonds outstanding as of December 31, 2020 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2021	\$ 81,300	\$ 37,663	\$ 118,963
2022	81,000	25,122	106,122
2023	76,300	22,413	98,713
2024	81,500	19,796	101,296
2025	81,800	17,087	98,887
2026-2030	88,700	70,678	159,378
2031-2035	107,800	53,155	160,955
2036-2040	134,000	29,693	163,693
2041-2045	<u>73,500</u>	<u>6,747</u>	<u>80,247</u>
	<u>\$ 805,900</u>	<u>\$ 282,354</u>	<u>\$ 1,088,254</u>

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

4. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize direct borrowing loan outstanding as of December 31, 2020 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2021	\$ 7,380	\$ 3,074	\$ 10,454
2022	7,584	2,870	10,454
2023	7,795	2,659	10,454
2024	8,010	2,444	10,454
2025	8,232	2,222	10,454
2026-2030	44,709	7,563	52,272
2031-2035	<u>29,907</u>	<u>1,456</u>	<u>31,363</u>
	<u>\$ 113,617</u>	<u>\$ 22,288</u>	<u>\$ 135,905</u>

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2020:

	December 31, 2019	Additions	Retirements	December 31, 2020	Due Within One Year
Net pension liability	\$ 857,961	\$ 100,012	\$ -	\$ 957,973	\$ -
Net OPEB liability	205,131	96,368	-	301,499	-
Bonds payable	881,200	-	(75,300)	805,900	81,300
Notes payable	<u>120,798</u>	<u>-</u>	<u>(7,181)</u>	<u>113,617</u>	<u>7,380</u>
Total	<u>\$ 2,065,090</u>	<u>\$ 196,380</u>	<u>\$ (82,481)</u>	<u>\$ 2,178,989</u>	<u>\$ 88,680</u>

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2019:

	December 31, 2018	Additions	Retirements	December 31, 2019	Due Within One Year
Net pension liability	\$ 688,996	\$ 168,965	\$ -	\$ 857,961	\$ -
Net OPEB liability	200,860	4,271	-	205,131	-
Bonds payable	946,200	-	(65,000)	881,200	80,900
Notes payable	<u>127,786</u>	<u>-</u>	<u>(6,988)</u>	<u>120,798</u>	<u>7,181</u>
Total	<u>\$ 1,963,842</u>	<u>\$ 173,236</u>	<u>\$ (71,988)</u>	<u>\$ 2,065,090</u>	<u>\$ 88,081</u>

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

5. COMPLIANCE WITH BOND RESOLUTIONS

The bond resolutions require the District to maintain certain reserves as follows:

Reserve Fund – This reserve is to receive a monthly transfer of \$483 until a balance of \$58,000 is accumulated for all bond issues. In addition, this reserve is to receive all proceeds collected from potential customers to aid construction of extensions and any insurance proceeds from property damage. Funds may be used only for the purpose of paying the cost of unusual or extraordinary maintenance and repairs not included in the budget and cost of constructing extensions or improvements to the system. The Reserve Fund balance totaled \$234,523 and \$232,025 at December 31, 2020 and 2019, respectively.

Maintenance and Replacement Reserve – This reserve is to receive an amount equal to ten percent of the amount of loan payments until the amount on deposit is equal to five percent of the original principal amount of the loan. Funds may be used for extraordinary maintenance expenses related to the water tank painting project or for the costs of replacing worn or obsolete portions of the project. At December 31, 2020 and 2019 the required balance in this reserve was \$1,600 and \$1,600, and the Maintenance and Replacement Reserve totaled \$2,800 and \$2,400, respectively.

Bond and Interest Sinking Fund – This reserve is to receive a monthly transfer of 1/12 of the next interest due and 1/12 of the next principal due. In addition, this reserve is to receive any excess revenues at the close of each year after provision of anticipated operating expenses for a two-month period. This reserve can only be used to pay debt service on the bond issues. The Bond and Interest Sinking Fund balances totaled \$364,662 and \$438,406 at December 31, 2020 and 2019, respectively.

6. LEASE COMMITMENTS

The District leases office equipment under a non-cancellable operating lease agreement. Rental expense for the years ended December 31, 2020 and 2019 was \$1,689 and \$1,569, respectively. Future minimum lease payments including applicable taxes and fees for operating leases at December 31, 2020 are as follows:

Year Ending December 31,		
2021	\$	1,559
2022		<u>390</u>
	\$	<u>1,949</u>

7. RETIREMENT PLAN

The East Pendleton 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 Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems 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 (COLA) adjustments are provided at the discretion of state legislature.

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

7. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended December 31, 2020, 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, 2020, participating employers contributed 24.06% 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 8. Plan members contributed 19.30% to the pension trust for non-hazardous job classifications for the year ended December 31, 2020. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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 5.00% 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 \$63,893 for the year ended December 31, 2020, or 100% of the required contribution. The District contributed \$56,072 for the year ended December 31, 2019, or 100% of the required contribution.

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
	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

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

7. RETIREMENT PLAN (CONTINUED)

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.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2020, the District reported a net pension liability of \$957,973 or its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 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, 2020, the District's proportion was 0.012490 percent, which was an increase of 0.000291 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the District recognized pension expense of \$181,846. For the year ended December 31, 2019, the District recognized pension expense of \$174,473. At December 31, 2020, 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	\$ 23,888	\$ -
Changes of assumptions	37,406	-
Net difference between projected and actual earnings on Plan investments	23,972	-
Changes in proportion and differences between District contributions and proportionate share of contributions	36,105	-
District contributions subsequent to the measurement date	33,092	-
Total	\$ 154,463	\$ -

The \$33,092 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2020 will be recognized in pension expense as follows:

Year ending December 31,	
2021	\$ 61,318
2022	\$ 37,910
2023	\$ 12,519
2024	\$ 9,624

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

7. RETIREMENT PLAN (CONTINUED)

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:

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

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, 2020 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, 2019) to the plan's fiscal year ending June 30, 2020.

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, 2020, 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	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	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	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.25%

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 24-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 PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

7. 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:

	<u>Discount rate</u>	<u>District's proportionate share of net pension liability</u>
1% decrease	5.25%	\$ 1,181,389
Current discount rate	6.25%	\$ 957,973
1% increase	7.25%	\$ 772,976

Payable to the Pension Plan – At December 31, 2020 and 2019, the District reported a payable of \$8,929 and \$7,002 for the outstanding amount of contributions to the pension plan required for the years ended, respectively. The payable includes both the pension and insurance contribution allocation.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, 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 7, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2020, the employer's contribution was 4.76% 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 Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2020, the District contributed \$15,758, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2019, the District contributed \$15,781, or 100% of the required contribution for non-hazardous job classifications.

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

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

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

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, 2020, the District reported a liability for its proportionate share of the net OPEB liability of \$301,499. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 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, 2020 was .012486 percent, which was an increase of 0.000287 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the District recognized OPEB expense of \$44,323. At December 31, 2020, 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	\$ 50,373	\$ 50,413
Changes of assumptions	52,442	319
Net difference between projected and actual earnings on Plan investments	10,021	-
Changes in proportion and differences between District contributions and proportionate share of contributions	14,645	224
District contributions subsequent to the measurement date	<u>15,561</u>	<u>-</u>
Total	<u>\$ 143,042</u>	<u>\$ 50,956</u>

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

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

The \$15,561 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, 2021. This includes an adjustment of \$7,399 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,		
2021	\$	20,017
2022	\$	22,982
2023	\$	17,293
2024	\$	16,333
2025	\$	(100)

Actuarial Assumptions – The total OPEB liability in the June 30, 2020, 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 of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post – 65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 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, 2020 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, 2019) to the plan's fiscal year ending June 30, 2020.

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

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

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. 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	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	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	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.25%

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2020 was 5.34% 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, 2020, 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	4.34%	\$ 387,338
Current discount rate	5.34%	\$ 301,499
1% increase	6.34%	\$ 230,997

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

8. 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	\$	233,436
Current trend rate	\$	301,499
1% increase	\$	384,095

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

9. 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 four fiscal years.

10. COVID-19 PANDEMIC

During 2020 and 2021, various restrictions were placed on utilities in the state of Kentucky in response to the COVID-19 pandemic. These restrictions included the cessation of utility shutoffs and the charging of penalties due to nonpayment of bills. As a result of these orders and the impact of COVID-19 on the District's customers, there has been an increase in delinquent billings as of December 31, 2020. The District is working to establish payment plans with customers who have delinquent bills in an attempt to ensure continuous service and the collection of past due balances. The District has increased the allowance for doubtful accounts to \$11,200 as of December 31, 2020, as an estimate of the total amount of accounts receivable that will not be collectible.

REQUIRED SUPPLEMENTARY INFORMATION

**EAST PENDLETON COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Seven Fiscal 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)
District's proportion of the net pension liability	0.012943%	0.012205%	0.009370%	0.011109%	0.011313%	0.012199%	0.012490%
District's proportionate share of the net pension liability (asset)	\$ 420,000	\$ 524,772	\$ 461,342	\$ 650,244	\$ 688,996	\$ 857,961	\$ 957,973
District's covered employee payroll	\$ 296,939	\$ 271,260	\$ 209,696	\$ 270,478	\$ 280,393	\$ 307,718	\$ 319,921
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	139.36%	193.46%	220.01%	240.41%	245.73%	278.81%	299.44%
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%

Notes:

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

**EAST PENDLETON COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - PENSION
Last Eight Fiscal Years**

	2013	2014	2015	2016	2017	2018	2019	2020
Contractually required employer contribution	\$ 36,629	\$ 40,040	\$ 30,001	\$ 28,028	\$ 41,414	\$ 44,288	\$ 56,072	\$ 63,893
Contributions relative to contractually required employer contribution	<u>36,629</u>	<u>40,040</u>	<u>30,001</u>	<u>28,028</u>	<u>41,414</u>	<u>44,288</u>	<u>56,072</u>	<u>63,893</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 295,298	\$ 301,368	\$ 239,531	\$ 210,496	\$ 292,976	\$ 287,497	\$ 315,253	\$ 331,052
Employer contributions as a percentage of covered-employee payroll	12.40%	13.29%	12.52%	13.32%	14.14%	15.40%	17.79%	19.30%

Notes:

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

**EAST PENDLETON COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Five Fiscal 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)
District's proportion of the net OPEB liability	0.011109%	0.011109%	0.011313%	0.012199%	0.012486%
District's proportionate share of the net OPEB liability (asset)	\$ 175,173	\$ 223,329	\$ 200,860	\$ 205,131	\$ 301,499
District's covered employee payroll	\$ 209,696	\$ 270,478	\$ 280,393	\$ 307,718	\$ 319,921
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	83.54%	82.57%	71.64%	66.66%	94.24%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%

Notes:

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

**EAST PENDLETON COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - OPEB
Last Eight Fiscal Years**

	2013	2014	2015	2016	2017	2018	2019	2020
Contractually required employer contribution	\$ 20,114	\$ 15,008	\$ 11,577	\$ 10,310	\$ 14,042	\$ 14,368	\$ 15,781	\$ 15,758
Contributions relative to contractually required employer contribution	<u>20,114</u>	<u>15,008</u>	<u>11,577</u>	<u>10,310</u>	<u>14,042</u>	<u>14,368</u>	<u>15,781</u>	<u>15,758</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered employee payroll	 \$ 295,298	 \$ 301,368	 \$ 239,531	 \$ 210,496	 \$ 292,976	 \$ 287,497	 \$ 315,253	 \$ 331,052
Employer contributions as a percentage of covered-employee payroll	6.81%	4.98%	4.83%	4.90%	4.79%	5.00%	5.01%	4.76%

Notes:

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

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2020

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, 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%, which increases to 6.30% in 2023.

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

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

- 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%

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.

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2020

2. CHANGES OF ASSUMPTIONS (CONTINUED)

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 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**

The Board of Commissioners
East Pendleton County Water District
Falmouth, 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 Pendleton County Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 18, 2021.

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) to determine the 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 have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item (2020-001) that we consider to be a material weakness.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

East Pendleton County Water District's Response to Findings

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

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
March 18, 2021

**EAST PENDLETON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2020**

FINDING 2020-001 (recurring)

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 draft financial statements, including the related notes to the financial statements.

Cause:

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

Effect:

The auditor prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for 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.

Response:

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