

Estill County Water District #1
Irvine, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2020 and 2019

Estill County Water District #1
Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Basic Financial Statements:	
Statements of Net Position	3-4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-26
Required Supplementary Information	
Schedule of the District's Proportionate Share of the Net Pension Liability	27
Schedule of the District's Proportionate Share of the Net OPEB Liability	28
Schedule of the District's Pension Contributions	29
Schedule of the District's OPEB Contributions	30
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	31-32
Schedule of Findings and Responses	33-34

Independent Auditors' Report

To the Commissioners
Estill County Water District #1
Irvine, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Estill County Water District #1 (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 audits. 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 audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Estill County Water District #1, as of December 31,

2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of the District's Proportionate Share of the Net OPEB Liability, Schedule of the District's Pension Contributions, and Schedule of the District's OPEB Contributions on pages 29-32 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's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2021 on our consideration of Estill County Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Estill County Water District #1's internal control over financial reporting and compliance.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

June 29, 2021

Estill County Water District #1
Statements of Net Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 31,667	\$ -
Receivable, less allowance for doubtful accounts of \$30,700 and \$30,000, respectively	184,233	166,051
Unbilled accounts receivable	75,099	80,269
Inventories	38,252	40,354
Prepaid expenses	9,939	10,279
Total Current Assets	339,190	296,953
Noncurrent Assets		
Restricted Assets		
Customer deposits	96,795	79,047
Debt and interest funds	71,782	118,603
Waterloss surcharge funds	188,269	35,991
Total Restricted Assets	356,846	233,641
Capital Assets		
Land and improvements	15,565	15,565
Buildings and improvements	443,227	443,227
Equipment	1,476,814	1,452,519
Other water system assets	13,552,328	13,552,328
Transportation	209,431	192,682
Office furniture and equipment	36,743	35,481
Less: accumulated depreciation	(8,286,025)	(8,006,437)
Net Capital Assets	7,448,083	7,685,365
Total Noncurrent Assets	7,804,929	7,919,006
Total Assets	8,144,119	8,215,959
Deferred Outflows of Resources		
Differences between expected and actual experience related to pension	20,511	18,141
Net differences between projected and actual earnings on pension plan investments	20,583	-
Changes of assumptions related to pensions	32,118	71,908
Changes in proportion and differences between employer contributions and proportionate share of contributions related to pensions	28,026	-
Pension contributions subsequent to measurement date	5,360	26,022
Differences between expected and actual experience related to OPEB	43,253	-
Net differences between projected and actual earnings on OPEB	8,605	-
Changes of assumptions related to OPEB	45,030	50,268
Changes in proportion and differences between employer contributions and proportionate share of contributions related to OPEB	8,141	-
OPEB contributions subsequent to measurement date	7,979	6,418
Total Deferred Outflows of Resources	219,606	172,757

See accompanying notes to financial statements.

Estill County Water District #1
Statements of Net Position (Continued)
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Liabilities		
Current Liabilities		
Bank overdraft	\$ -	\$ 72,832
Current portion of long-term debt	85,471	101,929
Accounts payable	132,328	51,549
Accrued interest payable	38,579	39,211
Accrued salaries and taxes payable	23,180	27,623
Customer deposits	89,765	68,619
Total Current Liabilities	<u>369,323</u>	<u>361,763</u>
Noncurrent Assets		
Net pension liability	822,522	710,478
Net OPEB liability	258,880	169,877
Long-term debt, less current portion included in current liabilities	<u>4,055,471</u>	<u>4,142,495</u>
Total Noncurrent Liabilities	<u>5,136,873</u>	<u>5,022,850</u>
Total Liabilities	<u>5,506,196</u>	<u>5,384,613</u>
Deferred Inflows of Resources		
Differences between expected and actual experience related to pensions	-	3,002
Differences between expected and actual experience related to OPEB	43,287	51,256
Net differences between projected and actual earnings on pension plan investments	-	11,454
Net differences between projected and actual earnings on OPEB plan investments	-	7,545
Changes of assumptions related to OPEB	274	336
Changes in proportion and differences between employer contributions and proportionate share of contributions related to pensions	21,824	48,444
Changes in proportion and differences between employer contributions and proportionate share of contributions related to OPEB	<u>17,680</u>	<u>22,412</u>
Total Deferred Inflows of Resources	<u>83,065</u>	<u>144,449</u>
Net Position		
Net investment in capital assets	3,307,141	3,440,941
Restricted	356,846	233,641
Unrestricted	<u>(889,523)</u>	<u>(814,928)</u>
Total Net Position	<u>\$ 2,774,464</u>	<u>\$ 2,859,654</u>

See accompanying notes to financial statements.

Estill County Water District #1
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Water sales	\$ 1,811,376	\$ 1,844,149
Other revenues	241,337	174,274
	<u>2,052,713</u>	<u>2,018,423</u>
Total Operating Revenues		
Operating Expenses		
Salaries and wages	320,713	310,342
Employee benefits	309,234	243,964
Purchased water	827,021	803,781
Utilities	83,262	80,354
Materials and supplies	60,324	98,026
Contracted services	50,965	121,072
Vehicle and equipment expenses	22,307	20,461
Insurance	21,911	20,783
Office expenses	24,590	24,145
Bad debt expense, net of recoveries	19,110	30,000
Depreciation	279,588	400,828
Other operating expenses	17,426	18,106
	<u>2,036,451</u>	<u>2,171,862</u>
Total Operating Expenses		
Operating Income (Loss)	<u>16,262</u>	<u>(153,439)</u>
Non-operating Revenues (Expenses)		
Interest income	343	506
Gain (loss) on sale of assets	-	53,486
Interest expense	(101,795)	(105,070)
Total Non-operating Revenues (Expenses)	<u>(101,452)</u>	<u>(51,078)</u>
Change in Net Position	(85,190)	(204,517)
Net Position, Beginning of Year	<u>2,859,654</u>	<u>3,064,171</u>
Net Position, End of Year	<u>\$ 2,774,464</u>	<u>\$ 2,859,654</u>

Estill County Water District #1
 Statements of Cash Flows
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,041,737	\$ 1,972,996
Payments to employees	(541,576)	(497,198)
Payments to suppliers	<u>(1,024,585)</u>	<u>(1,348,927)</u>
Net Cash Provided by Operating Activities	<u>475,576</u>	<u>126,871</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(42,306)	(84,965)
Proceeds from sale of property, plant and equipment	-	53,486
Principal payments on debt	(103,482)	(97,708)
Interest payments on debt	(102,427)	(66,859)
Proceeds from debt	<u>-</u>	<u>-</u>
Net Cash Used by Capital and Related Financing Activities	<u>(248,215)</u>	<u>(196,046)</u>
Cash Flows From Investing Activities		
Interest income	<u>343</u>	<u>506</u>
Net Cash Provided by Investing Activities	<u>343</u>	<u>506</u>
Net Increase in Cash and Cash Equivalents	227,704	(68,669)
Cash and Cash Equivalents at Beginning of Year	<u>160,809</u>	<u>229,478</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 388,513</u></u>	<u><u>\$ 160,809</u></u>
Reconciliation of cash per Statement of Net Position to cash per Statement of Cash Flows:		
Cash and cash equivalents (bank overdraft)	\$ 31,667	\$ (72,832)
Customer deposits	96,795	79,047
Waterloss surcharge funds	188,269	35,991
Debt and interest funds	<u>71,782</u>	<u>118,603</u>
Cash and cash equivalents per Statement of Cash Flows	<u><u>\$ 388,513</u></u>	<u><u>\$ 160,809</u></u>

Estill County Water District #1
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating Income (loss)	\$ 16,262	\$ (153,439)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	279,588	400,828
Bad debt expense	19,110	30,000
Deferred pension and OPEB costs	(108,233)	17,310
(Increase) Decrease in operating assets		
Accounts receivable	(37,292)	(49,893)
Unbilled receivables	5,170	(6,800)
Inventory	2,102	(22,684)
Prepaid expenses	340	320
Increase (Decrease) in operating liabilities		
Accounts payable	80,779	(139,835)
Accrued salaries and taxes payable	(4,443)	13,667
Customer deposits	21,146	11,266
Net pension liability	112,044	49,071
Net OPEB liability	<u>89,003</u>	<u>(22,940)</u>
Net Cash Provided by Operating Activities	<u>\$ 475,576</u>	<u>\$ 126,871</u>

Estill County Water District #1
Notes to Financial Statements
December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Estill County Water District #1 (the District) is an agency of the Estill County Fiscal Court. The District is governed by a Board of Commissioners appointed by the Estill County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

The District is a rural water utility system whose purpose is to establish, develop and operate a water supply and distribution system for its members and customers in Estill County, Kentucky. The District's primary source of revenue is from water sales to its customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The District applies all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the District as a whole. These statements include all funds of the District.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The District considers demand deposits and certificates of deposit to be cash equivalents.

Accounts Receivable

Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed and are considered past due on the first day of the following month. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2020 and 2019, the allowance for doubtful accounts was \$30,700 and \$30,000, respectively.

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies (Continued)

Unbilled Accounts Receivable

Estimated unbilled 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.

Inventories and Prepaid Expenses

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost and are recorded as an expense at the time individual items are used. Prepaid expenses represent payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

The District's property, plant and equipment with useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

<u>Asset Classification</u>	<u>Range of Lives</u>
Water and sewer system utility plants	20-62.5 years
Buildings and improvements	10-40 years
Trucks and equipment	3-10 years
Office equipment	3-10 years

Customer Deposits

The District collects and holds in escrow a \$100 deposit from customers to ensure collection of its water charges. Interest at an annual rate of 0.10% is paid on these deposits.

Compensated Absences

Full-time employees receive annual leave based on their years of continuous service. The District allows employees to accumulate and carry over a maximum of 40 hours of annual leave time. Employees are paid for any unused annual leave time earned upon termination of employment, and may be compensated in cash, subject to all taxes and withholdings, for all annual leave accrued at the end of each calendar year. Employees accrue 8 hours of sick leave time every odd month and 8 hours of personal leave time every even month. Personal leave time may accumulate and be carried forward from one calendar year to the next, but the total accumulation shall not exceed 16 hours. Employees may be compensated in cash, subject to all taxes and withholdings, for all annual personal leave accrued at the end of each calendar year.

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position

Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District would typically use restricted assets first, but reserves the right to selectively spend unrestricted assets first.

Use of 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 reporting period. Actual results could differ from those estimates.

Pensions and OPEB

For purposes of measuring net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The plan's financial statements are prepared using the accrual basis of accounting and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) that apply to governmental accounting for fiduciary funds. Investments are reported at fair value.

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 2 – Restricted Assets

Under the terms of all loan resolutions, the District is required to maintain certain accounts and funds for the benefit and protection of the creditors. The balance of these accounts at December 31, 2020 and 2019 was \$71,782 and \$118,603, respectively. In addition, the District is also required to collect reasonable and sufficient rates and charges for services rendered, prohibited from selling, leasing or mortgaging any part of the system without prior approval, required to maintain the operating system in good condition and to carry adequate insurance on all properties to protect against loss or damage.

The resolutions require the District to establish a depreciation fund or reserve to be used to finance the cost of unusual repairs, renewals and replacements not included in the annual budget and to pay for future system extensions. The balance of these accounts at December 31, 2020 and 2019 was \$0 and \$0, respectively.

The balances of customer deposits held at December 31, 2020 and 2019 was \$96,795 and \$79,047, respectively.

Under an agreement with the Public Service Commission, in 2019 the District began charging customers for a waterloss surcharge. The funds are maintained in a separate account and are only to be used for waterloss prevention efforts. The balance of this account at December 31, 2020 and 2019 is \$188,269 and \$35,991, respectively.

Note 3 – Kentucky Revised Statute

In accordance with Kentucky Revised Statute (KRS) 91A.060, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), the financial institution shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS 66.480, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, interest bearing deposits of insured savings and loans, or interest bearing deposits of insured national or state banks. For additional cash descriptive information, see Note 1.

Note 4 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2020 and 2019, the District's total deposits at banks of \$427,963 and \$250,391, respectively, were exposed to custodial credit risk as follows:

	2020	2019
Uninsured and uncollateralized	\$ 177,963	\$ -
Uninsured and collateral held by pledging bank	-	-
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	<u>\$ 177,963</u>	<u>\$ -</u>

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 5 – Capital Assets

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

	Balance Dec. 31, 2019	Additions	Dispositions	Balance Dec. 31, 2020
Land and land improvements	\$ 15,565	\$ -	\$ -	\$ 15,565
Buildings and improvements	443,227	-	-	443,227
Equipment	1,452,519	24,295	-	1,476,814
Other water system assets	13,552,328	-	-	13,552,328
Transportation	192,682	16,749	-	209,431
Office furniture and equipment	35,481	1,262	-	36,743
Totals at historical cost	<u>15,691,802</u>	<u>42,306</u>	<u>-</u>	<u>15,734,108</u>
Less accumulated depreciation	<u>8,006,437</u>	<u>279,588</u>	<u>-</u>	<u>8,286,025</u>
Capital assets - net	<u>\$ 7,685,365</u>	<u>\$ (237,282)</u>	<u>\$ -</u>	<u>\$ 7,448,083</u>

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

	Balance Dec. 31, 2018	Additions	Dispositions	Balance Dec. 31, 2019
Land and land improvements	\$ 15,565	\$ -	\$ -	\$ 15,565
Buildings and improvements	443,227	-	-	443,227
Equipment	1,401,977	50,542	-	1,452,519
Other water system assets	13,730,248	19,924	197,844	13,552,328
Transportation	178,183	14,499	-	192,682
Office furniture and equipment	35,481	-	-	35,481
Totals at historical cost	<u>15,804,681</u>	<u>84,965</u>	<u>197,844</u>	<u>15,691,802</u>
Less accumulated depreciation	<u>7,803,453</u>	<u>400,828</u>	<u>197,844</u>	<u>8,006,437</u>
Capital assets - net	<u>\$ 8,001,228</u>	<u>\$ (315,863)</u>	<u>\$ -</u>	<u>\$ 7,685,365</u>

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 6 – Long-Term Debt

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

	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2020</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to local bank, monthly principal and interest payment of \$2,331 at the rate of 3.0%, with final ballon payment due December 31, 2021	\$ 222,732	\$ -	\$ 23,483	\$ 199,249	\$ 20,436
Various bond issues payable to United States Department of Agriculture, principal and interest payable annually in varying amounts, interest rates ranging from 2.375% to 5.0%, with final payment due in 2058, secured by water distribution system	<u>4,021,693</u>	<u>-</u>	<u>80,000</u>	<u>3,941,693</u>	<u>65,035</u>
	<u>\$ 4,244,425</u>	<u>\$ -</u>	<u>\$ 103,483</u>	<u>\$ 4,140,942</u>	<u>\$ 85,471</u>

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 6 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2019:

	<u>Balance</u> <u>Dec. 31, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to local bank, monthly principal and interest payment of \$2,331 at the rate of 3.0%, with final ballon payment due December 31, 2021	\$ 241,440	\$ -	\$ 18,708	\$ 222,732	\$ 21,658
Various bond issues payable to United States Department of Agriculture, principal and interest payable annually in varying amounts, interest rates ranging from 2.375% to 5.0%, with final payment due in 2058, secured by water distribution system	4,100,693	-	79,000	4,021,693	80,271
	<u>\$ 4,342,133</u>	<u>\$ -</u>	<u>\$ 97,708</u>	<u>\$ 4,244,425</u>	<u>\$ 101,929</u>

The aggregate annual principal repayments on long-term debt are summarized as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 85,471	\$ 98,821	\$ 184,292
2022	89,575	97,110	186,685
2023	91,875	94,830	186,705
2024	93,951	92,734	186,685
2025	96,590	90,096	186,686
2026-2030	465,732	414,000	879,732
2031-2035	430,919	362,291	793,210
2036-2040	484,443	308,767	793,210
2041-2045	544,913	261,013	805,926
2046-2050	612,886	180,324	793,210
2051-2055	689,240	103,970	793,210
2056-2058	455,347	21,830	477,177
	<u>\$ 4,140,942</u>	<u>\$ 2,125,786</u>	<u>\$ 6,266,728</u>

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan

Estill County Water District #1 is a participating employer of the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement Systems administers CERS, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630. The assets of the system are segregated by plan (KERS, CERS, and SPRS), where each system's assets are used only for the payment of benefits to the members of that plan and a pro rata share of administrative costs. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Retirement Systems website or may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description

CERS is a cost sharing, multiple-employer, defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Benefits Provided

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. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the District. All employees meeting the requirements for membership are required to contribute a percentage of their gross wages. For the years ended December 31, 2020 and 2019, plan members in non-hazardous positions were required to contribute 5% of the employee's total compensation subject to contribution. 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 61.565, normal contribution and past service contribution rates shall be determined by the Kentucky Retirement Systems Board of Trustees on the basis of the annual actuarial valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of July 1 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 in accordance with the actuarial basis adopted by the Board. The District's required contribution rates for the year ended December 31, 2020 were 24.06% (January through June 2020) and 24.06% (July through December 2020). The District's required contribution rates for the year ended December 31, 2019 were 21.48% (January through June 2019) and 24.06% (July through December 2019). Required contribution rates were actuarially determined and adopted by the Kentucky Retirement Systems Board of Trustees. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

Contributions (Continued)

Plan members who began participating on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. A Cash Balance Plan resembles a defined contribution plan because it determines the value of benefits for each participant based on individual accounts. However, the assets of the plan remain in a single investment pool like a traditional defined benefit plan. A Cash Balance Plan resembles a defined benefit plan since it uses a specific formula to determine benefits. Members and employers contribute specified percentages of the member's wages each month to the member's account. Non-hazardous plan members are required to contribute 5% of wages to their individual account. All members are required to contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. 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 account earns a guaranteed amount of interest, 4% on both the member contributions and the Employer Pay Credit balance, at the end of each fiscal year. If the member contributed to the plan during the fiscal year, there may be additional interest credit added to the member's account depending on Kentucky Retirement Systems' investment returns. This "upside" interest sharing is based on the 5-year average geometric investment return. If it exceeds 4% the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30 of the previous year. For the fiscal years ended June 30, 2020 and 2019, the interest earned on CERS non-hazardous plans was 4.97% and 5.13%, respectively.

The District's payroll for the years ended December 31, 2020, 2019, and 2018 was \$307,484, \$254,415, and \$267,162, respectively, all of which was covered by CERS. The District's contribution requirements for CERS for the years ended December 31, 2020, 2019, and 2018 were \$70,372 (\$55,037 allocated to the CERS pension fund and \$15,335 allocated to the CERS insurance fund), \$58,127 (\$45,419 allocated to the CERS pension fund and \$12,708 allocated to the CERS insurance fund), and \$54,352 (\$41,038 allocated to the CERS pension fund and \$13,314 allocated to the CERS insurance fund), respectively. The District contributed 100% of their required contributions for the years ended December 31, 2020, 2019, and 2018.

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

At December 31, 2020 and 2019, the District reported a liability of \$822,522 and \$710,478, respectively for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, respectively, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of those dates. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating plan members, as actuarially determined. At the June 30, 2020 and 2019 measurement dates, the District's proportion was 0.010724% and 0.010102%, respectively.

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

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

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

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled, “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018.” The total pension liability as of June 30, 2019, was determined using these updated assumptions. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous and hazardous
Salary Increase	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS Non-hazardous and hazardous

The mortality table used for active members was a 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. 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.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer’s election was unknown at the time of the valuation, and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. There were no other plan provision changes.

The District recognized pension expense of \$112,795 and \$90,622 for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 20,511	\$ -
Net difference between projected and actual investment earnings on pension plan investments	20,583	-
Changes of assumptions	32,118	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	28,026	21,824
Employer contributions subsequent to the measurement date	5,360	-
Total	<u>\$ 106,598</u>	<u>\$ 21,824</u>

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

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

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net pension liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

The \$5,360 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2021	\$	29,116
2022		30,236
2023		11,791
2024		8,271
2025		-
Thereafter		-
Total	<u>\$</u>	<u>79,414</u>

At December 31, 2019, 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
Difference between expected and actual experience	\$ 18,141	\$ 3,002
Net difference between projected and actual investment earnings on pension plan investments	-	11,454
Changes of assumptions	71,908	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	48,444
Employer contributions subsequent to the measurement date	26,022	-
Total	<u>\$ 116,071</u>	<u>\$ 62,900</u>

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2020:

Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service, for CERS non-hazardous
Investment Rate of Return	6.25%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The 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 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%
Specialty 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%	

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

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 assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the CAFR.

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

The following presents the net pension liability of the District's CERS pension plan, calculated using the discount rate of 6.25 percent, 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's net pension liability	\$ 1,014,314	\$ 822,522	\$ 663,660

Pension Plan Fiduciary Net Position

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

Note 8 –OPEB Plan

As a participating employer of the County Employees' Retirement System (CERS), the District also participates in the County Employees Retirement System Insurance Fund (Insurance Fund). Under the provisions of Kentucky Revised Statute Sections 61.645 and 61.701, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Retirement Systems Insurance Fund (KERS), County Employees Retirement System (CERS) and State Police Retirement System (SPRS). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems (KERS, CERS, and SPRS). The assets of the Insurance Fund are also segregated by plan. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Retirement Systems website or may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description

CERS Insurance Fund is a cost sharing, multiple-employer, defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

Plan Membership

The net OPEB liability was calculated based on the Insurance plan membership as of June 30, 2019:

Membership Status	Non-Hazardous
Inactive plan members currently receiving benefits	36,371
Inactive plan members entitled to but not yet receiving benefits	29,362
Active plan members	81,147
Total Membership	146,880

Benefits Provided

The Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Kentucky Retirement Systems submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays a proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. The amount of contribution paid by the Insurance Fund is based on years of service. Additional details can be found in the publicly available Kentucky Retirement Systems Comprehensive Annual Financial Report which may be downloaded from the Kentucky Retirement Systems website.

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the District. See Note 7 for a description of the District’s covered payroll and contribution requirements as well as the breakdown of contributions between the pension and insurance funds.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2020 and 2019 the District reported a liability of \$258,880 and \$169,877, respectively for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020 and 2019, respectively, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of those dates. 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 plan members, as actuarially determined. At the June 30, 2020 and 2019 measurement dates, the District’s proportion was 0.010721% and 0.010102%, respectively.

For financial reporting the actuarial valuation as of June 30, 2020 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan’s fiscal year ending June 30, 2020, using generally accepted actuarial principles. The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018.” The total OPEB liability as of June 30, 2020 is determined using these updated assumptions.

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2020:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous and hazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
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.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	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

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer's election was unknown at the time of the valuation, and the legislation was enacted after June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. There were no other plan provision changes.

The long-term expected return was determined by using the building-block method in which best-estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same as those adopted for the CERS Pension Plan and are summarized in the table in Note 7.

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The District recognized OPEB expense of \$32,397 and \$13,900 for the years ended December 31, 2020 and 2019, respectively. 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 experience	\$ 43,253	\$ 43,287
Changes of assumptions	45,030	274
Net difference between projected and actual earnings on OPEB plan investments	8,605	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,141	17,680
Employer contributions subsequent to the measurement date	7,979	-
Total	<u>\$ 113,008</u>	<u>\$ 61,241</u>

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net OPEB liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

The \$7,979 reported as deferred outflows of resources related to OPEB 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 related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:		
2021	\$	11,526
2022		14,073
2023		9,202
2024		10,215
2025		(1,228)
Thereafter		-
Total	<u>\$</u>	<u>43,788</u>

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At December 31, 2019, the District reported deferred outflows of resources and deferred 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	\$ -	\$ 51,256
Changes of assumptions	50,268	336
Net difference between projected and actual earnings on OPEB plan investments	-	7,545
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	22,412
Employer contributions subsequent to the measurement date	6,418	-
Total	<u>\$ 56,686</u>	<u>\$ 81,549</u>

Investment Policy

Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the Kentucky Retirement System Board. The Board has established an Investment Committee which is specifically charged with the oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the “Prudent Person Rule” (set forth in Kentucky Revised Statute 61.650) and manage those funds consistent with the long-term nature of the systems. The Investment Committee has adopted an Investment Policy Statement (IPS) that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of Kentucky Retirement Systems. The IPS contains the specific guidelines for the investment of Pension and Insurance assets. The target allocation and best estimates of arithmetic real rates of return for each major asset class adopted by the Kentucky Retirement System Board for the Insurance Plan are the same as those adopted for the CERS Pension Plan (See Note 7).

Net OPEB Liability

The components of the net OPEB liability of the participating employers in the CERS Non-Hazardous System and the District’s proportionate share at June 30, 2020 were as follows:

	<u>Total CERS Non- Hazardous System</u>	<u>Commission's Proportionate Share</u>
Total OPEB liability	\$ 4,996,309,000	\$ 701,583
Plan fiduciary net position	<u>(2,581,613,000)</u>	<u>(362,511)</u>
Employers' Net OPEB Liability	<u>\$ 2,414,696,000</u>	<u>\$ 339,072</u>

Plan Fiduciary Net Position as a Percentage
of the Total OPEB Liability

51.67%	51.67%
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Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	26 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous and hazardous

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

Discount Rate

The discount rate used to measure the total OPEB liability was 5.34 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 remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 28, 2019. 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.

Estill County Water District #1
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.34 percent, 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 (4.34 percent) or 1-percentage-point higher (6.34 percent) than the current rate:

	1% Decrease (4.34%)	Current Discount Rate (5.34%)	1% Increase (6.34%)
District's proportionate share of net OPEB liability	\$ 332,579	\$ 258,880	\$ 198,341

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the healthcare cost trend rate, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 200,435	\$ 258,880	\$ 329,796

Note 9 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Note 10 - Subsequent Events

The world-wide outbreak of COVID-19 is having a major impact on the normal business activities in the United States and the state of Kentucky. Measures taken by various entities to contain the virus have effected economic activity. Management has taken several measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our employees and customers and securing the supply of materials that are essential to operations. The Organization will continue to follow the various government policies and advice and will do its utmost to continue operations in the best and safest way possible without jeopardizing the health of its employees and customers. The Commission has not yet determined the impact, if any, that the COVID-19 outbreak will have on its net position, results of operations and cash flows.

Management of the District has evaluated subsequent events through June 29, 2021, the date on which the financial statements were available to be issued.

Estill County Water District #1
Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees Retirement System (CERS) Pension Plan
Last Ten Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.010724%	0.010102%	0.010860%	0.01171%	0.01224%	0.01287%	0.01303%
District's proportionate share of the net pension liability (asset)	\$ 822,522	\$ 710,478	\$ 661,407	\$ 685,247	\$ 602,741	\$ 553,387	\$ 422,885
District's covered-employee payroll	\$ 274,685	\$ 254,820	\$ 269,173	\$ 285,039	\$ 292,030	\$ 300,295	\$ 299,030
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	299.44%	278.82%	245.72%	240.40%	206.40%	184.28%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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

* The amounts presented for each year were determined (measured) as of the fiscal year-end that occurred within the calendar year.

Estill County Water District #1
Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employees Retirement System (CERS) OPEB Plan
Last Ten Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability (asset)	0.010721%	0.010102%	0.010860%	0.01171%
District's proportionate share of the total OPEB liability (asset)	\$ 535,654	\$ 429,454	\$ 454,991	\$ 494,372
District's proportionate share of the plan fiduciary net position	<u>(276,774)</u>	<u>(259,577)</u>	<u>(262,174)</u>	<u>(259,021)</u>
District's proportionate share of the net OPEB liability (asset)	\$ 258,880	\$ 169,877	\$ 192,817	\$ 235,351
District's covered-employee payroll	\$ 274,685	\$ 254,820	\$ 269,173	\$ 285,039
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	94.25%	66.67%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.39%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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

* The amounts presented for each year were determined (measured) as of the fiscal year-end that occurred within the calendar year.

Estill County Water District #1
Schedule of the District's Pension Contributions
County Employees Retirement System (CERS) Pension Plan
Last Ten Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 53,014	\$ 41,332	\$ 38,976	\$ 39,763	\$ 36,270	\$ 38,288	\$ 41,087
Contributions in relation to the contractually required contribution	<u>(53,014)</u>	<u>(41,332)</u>	<u>(38,976)</u>	<u>(39,763)</u>	<u>(36,270)</u>	<u>(38,288)</u>	<u>(41,087)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 274,685	\$ 254,820	\$ 269,173	\$ 285,039	\$ 292,030	\$ 300,295	\$ 299,030
Contributions as a percentage of covered-employee payroll	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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

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

* The amounts presented for each year were determined (measured) as of the fiscal year-end that occurred within the calendar year.

Estill County Water District #1
Schedule of the District's OPEB Contributions
County Employees Retirement System (CERS) OPEB Plan
Last Ten Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 13,075	\$ 13,404	\$ 12,651	\$ 13,482
Contributions in relation to the contractually required contribution	<u>(13,075)</u>	<u>(13,404)</u>	<u>(12,651)</u>	<u>(13,482)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 274,685	\$ 254,820	\$ 269,173	\$ 285,039
Contributions as a percentage of covered-employee payroll	4.76%	5.26%	4.70%	4.73%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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

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

* The amounts presented for each year were determined (measured) as of the fiscal year-end that occurred within the calendar year.

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Commissioners
Estill County Water District #1
Irvine, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 Estill County Water District #1, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Estill County Water District #1's basic financial statements, and have issued our report thereon dated June 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Estill County Water District #1'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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses (See items 2020-1 and 2020-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Estill County Water District #1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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* and which is described in the accompanying schedule of findings and responses (See item 2020-3 and 2020-4).

Estill County Water District #1's Response to Findings

Estill County Water District #1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Estill County Water District #1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

June 29, 2021

Estill County Water District #1
Schedule of Findings and Responses
December 31, 2020

A. Findings – Financial Statement Audit

2020-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The District's limited internal resources prevents the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

Effect:

The District was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles.

Views of responsible officials and planned corrective actions:

The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

2020-2

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The size of the Water District's office staff does not allow proper segregation of duties in the areas of cash receipts, billing, accounts receivable, and payroll.

Effect:

This condition creates a weakness in internal controls which could result in unauthorized transactions being processed.

Views of responsible officials and planned corrective actions:

The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

Estill County Water District #1
Schedule of Findings and Responses (Continued)
December 31, 2020

2020-3

Criteria:

Under the terms of loan agreements with the United States Department of Agriculture, the District is required to maintain accounts with minimum balances, based on outstanding loan balances and advances.

Condition:

At December 31, 2020, the District does not have sufficient amounts on deposit based on the loan agreements.

Cause:

The District did not have available cash to maintain the required balances.

Effect:

The District failed to comply with the loan covenants.

Views of responsible officials and planned corrective actions:

The District plans to get in compliance with the loan covenants as soon as possible and maintain the required balances on deposit.

2020-4

Criteria:

In accordance with Kentucky Revised Statute (KRS) 91A.060, the District's deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4).

Condition:

At December 31, 2020, the District has bank deposits in excess of FDIC insurance coverage that are not adequately collateralized.

Cause:

The District was not monitoring its bank balances to take appropriate steps to adequately insure its deposits.

Effect:

The District failed to comply with KRS 91A.060 and adequately insure its bank deposits.

Views of responsible officials and planned corrective actions:

The District plans to get in compliance with the KRS immediately and monitor its bank balances for adequate coverage going forward.