

GALLATIN COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2020 and 2019

**GALLATIN COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Gallatin County Water District
Sparta, Kentucky 41086

Report on the Financial Statements

We have audited the accompanying financial statements of Gallatin County Water District as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Gallatin County Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gallatin 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 required supplementary information listed in the Table of Contents on pages 3 through 6, and pages 36 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2021, on our consideration of the Gallatin County Water 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 Gallatin 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 Gallatin County Water District's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

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

March 8, 2021

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2020**

Our discussion and analysis of the Gallatin County Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2020. Please read it in conjunction with the District's financial statements, which begin on page 7.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The balance sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for evaluating the capital of the District and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its water rates and other fees.

The final required financial statement is its statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reported period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL HIGHLIGHTS

The following are key financial highlights:

- Total assets at year-end of \$7,241,709 and deferred outflows of resources of \$204,700 exceeded liabilities of \$4,095,698 and deferred inflows of resources of \$78,671 by \$3,272,040 (i.e. net position). Of the total net position, \$963,711 was unrestricted and was available to support short-term operations. Total net position increased from year end 2019 to 2020 in the amount of \$47,118.
- Total Operating Revenues increased by \$4,758. Water revenues increased \$35,467, however service charges, connection fees and miscellaneous revenues decreased \$30,709 due to COVID-19 restrictions on those charges.
- Total Operating Expenses decreased by \$43,958 mainly attributed to decreases associated with employee health insurances, labor and travel/transportation expenses.
- The District was in compliance with all debt covenants required by borrowing agreements.

Statement of Net Position

Utility Plant decreased by \$206,767 net of depreciation, in 2020. (See diagram below.)

	Condensed Assets		
	2020	2019	Difference
Utility Plant	\$ 5,162,384	\$ 5,369,151	\$ (206,767)
Current Assets	1,857,738	1,171,950	685,788
Other Non-current Assets	221,587	654,390	(432,803)
Total Net Assets	<u>\$ 7,241,709</u>	<u>\$ 7,195,491</u>	<u>\$ 46,218</u>

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2020**

At the end of December 31, 2020, the District had \$5,162,384 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2020</u>	<u>2019</u>
Land & Rights	\$ 226,229	\$ 226,229
Structures & Improvements	198,501	207,855
Distribution System	4,486,231	4,675,187
Wells	153,604	163,458
Machinery & Equipment	97,819	96,422
Construction in Process	<u>-</u>	<u>-</u>
Totals	<u>\$ 5,162,384</u>	<u>\$ 5,369,151</u>

This year's major additions included:

- New Asset Management and Mapping Software
- New equipment purchases include a Kubota SideKick

Deferred outflows of resources and deferred inflows of resources associated with the District's Employees' Pension Plan and other Employee Post Retirement Benefits (Insurance Plans) were \$204,700 and \$189,275 outflows and \$78,671 and \$92,262 inflows for the years ended December 31, 2020 and 2019, respectively. The deferred outflows of resources include contributions to the pension and OPEB plans made by the District subsequent to the net pension liability and net OPEB liability measurement date. Other deferred outflows and inflows are attributable to variances in the actual results versus the actuarial assumptions used by the plans, and therefore, reflect amounts arising from changes made in assumptions, cumulative changes in proportionate share, and differences between employee contributions and proportionate share of contributions. Cumulative differences between projected and actual investment earnings on pension plan investments also gave rise to deferred outflows of resources.

Total Liabilities increased by \$28,116 attributable mainly to normal principal payments made on outstanding debts offset by the increase in net pension liabilities.

Condensed Liabilities

	<u>2020</u>	<u>2019</u>	<u>Difference</u>
Long Term Debt	\$ 3,898,793	\$ 3,859,671	\$ 39,122
Current & Accrued Liabilities	196,905	207,911	(11,006)
Total Liabilities	<u>\$ 4,095,698</u>	<u>\$ 4,067,582</u>	<u>\$ 28,116</u>

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2020**

Net Position

At December 31, 2020, net position increased \$47,118 as a result of contributions in aid of construction of \$21,640 in addition the District income from operations (before contributions) of \$25,478. A decrease of \$346,325 to net position restricted for debt service is attributable to the elimination debt covenant restrictions due to the refunding of the RECD Revenue Bonds Series 2006A and 2006B.

Condensed Net Position

	<u>2020</u>	<u>2019</u>	<u>Difference</u>
Net Investment in Capital Assets	\$ 2,154,780	\$ 2,296,981	\$ (142,201)
Restricted for Debt Service	153,549	499,874	(346,325)
Unrestricted	963,711	428,067	535,644
Total	<u>\$ 3,272,040</u>	<u>\$ 3,224,922</u>	<u>\$ 47,118</u>

Statement of Revenues, Expenses and Changes in Net Position

Operating Revenues for 2020 increased by \$4,758. Operating expenses decreased by \$43,958 in 2020. Depreciation decreased by \$1,458.

Condensed Statement of Revenues and Expenses

	<u>2020</u>	<u>2019</u>	<u>Difference</u>
Operating Revenues	\$ 1,154,657	\$ 1,149,899	\$ 4,758
Operating Expenses	996,200	1,040,158	(43,958)
Operating Revenue	\$ 158,457	\$ 109,741	\$ 48,716
Non-Operating Revenue (Expenses)	(132,979)	(80,566)	(52,413)
Income (Loss) Before Contributions	<u>\$ 25,478</u>	<u>\$ 29,175</u>	<u>(3,697)</u>

Statement of Cash Flows

Cash from Operating Activities was up \$22,022 in 2020. Cash from capital and related financing activities in 2020 reflect the monies received and used to finance capital improvements and equipment. Overall cash increased \$206,121. Cash is consistent with expectations for the year.

Condensed Statement of Cash Flows

	<u>2020</u>	<u>2019</u>	<u>Difference</u>
Cash from Operating Activities	\$ 458,049	\$ 436,027	\$ 22,022
Cash used by Capital & Related Financing Activities	(253,645)	(299,958)	46,313
Cash from Investing Activities	1,717	3,622	(1,905)
Change in Cash	\$ 206,121	\$ 139,691	\$ 66,430
Cash Balance, Beginning of Year	759,167	619,476	139,691
Cash Balance, End of Year	<u>\$ 965,288</u>	<u>\$ 759,167</u>	<u>\$ 206,121</u>

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2020**

Debt

At year-end, the District had \$2,931,056 in notes payable, bonds payable and accrued compensated absences compared to \$3,152,485 last year as shown below. The decrease is attributable to the payment of scheduled principal and interest payments.

	<u>2020</u>	<u>2019</u>
Notes Payable	\$ 294,156	\$ 320,140
Bonds Payable	2,630,000	2,716,000
Accrued Compensated Absences	6,900	5,569
Totals	<u>\$ 2,931,056</u>	<u>\$ 3,041,709</u>

Net Pension Liability and Net OPEB Liability

The District's adoption of GASB 68 and GASB 75 requires that the District report its proportionate share of the net pension liability and net OPEB liability associated with its employees' pension plan and insurance plan (the County Employee Retirement System). The District's proportionate share of the net pension liability was \$748,507 and \$710,830 for the years ended December 31, 2020 and 2019 and was based on measurement dates of June 30, 2020 and 2019, respectively. The District's proportionate share of the net OPEB liability was \$235,602 and \$169,945 for years ending December 31, 2020 and December 31, 2019 and was based on measurement dates of June 30, 2020 and 2019, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As a result of the rate case study performed in 2020 the District anticipates no changes in customer water rates.

The District anticipates an increase in revenues associated with billing service charges as a result of PSC lifting the moratorium on service disconnections and late fees. We may also see some increases in operating expenses associated with reopening the economy.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 4500 Highway 455, Sparta, KY 41086.

Tammy Hendren
Office Manager

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,631,597	\$ 976,669
Accounts Receivable Trade (Net)	125,640	116,981
Accounts Receivable - Other	28,282	-
Interest Receivable	2,721	4,037
Inventory	49,461	56,907
Prepaid Expense	20,037	17,356
Total Current Assets	<u>\$ 1,857,738</u>	<u>\$ 1,171,950</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 221,587	\$ 653,840
Interest Receivable	-	550
Capital Assets (Net)	5,162,384	5,369,151
Total Noncurrent Assets	<u>\$ 5,383,971</u>	<u>\$ 6,023,541</u>
Total Assets	<u>\$ 7,241,709</u>	<u>\$ 7,195,491</u>
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 105,780	\$ 130,177
Attributable to Employee OPEB Plan	98,920	59,098
Total Deferred Outflows of Resources	<u>\$ 204,700</u>	<u>\$ 189,275</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 14,002	\$ 10,707
Accrued Wages	6,066	7,258
Accrued Compensated Absences	6,900	5,569
Accrued Payroll Taxes/Employee Withholding	8,287	8,453
Utility Tax Payable	2,699	2,525
Sales Tax Payable	772	638
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	36,857	54,377
Revenue Bonds Payable	95,000	92,400
Note Payable - Kentucky Infrastructure Authority	26,322	25,984
Total Current Liabilities	<u>\$ 196,905</u>	<u>\$ 207,911</u>
Noncurrent Liabilities:		
Revenue Bonds Payable (Including Premium \$83,448 for 2020 and \$36,030 for 2019)	\$ 2,618,448	\$ 2,659,630
Note Payable - Kentucky Infrastructure Authority	267,834	294,156
Escrow - Customer Construction Deposits	4,054	1,152
Net Pension Liability	748,507	710,830
Net OPEB Liability	235,602	169,945
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	24,348	23,958
Total Noncurrent Liabilities	<u>\$ 3,898,793</u>	<u>\$ 3,859,671</u>
Total Liabilities	<u>\$ 4,095,698</u>	<u>\$ 4,067,582</u>
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 27,675	\$ 30,550
Attributable to Employee OPEB Plan	50,996	61,712
Total Deferred Inflows of Resources	<u>\$ 78,671</u>	<u>\$ 92,262</u>
NET POSITION		
Net Investment in Capital Assets	\$ 2,154,780	\$ 2,296,981
Restricted for Debt Service	153,549	499,874
Unrestricted	963,711	428,067
Total Net Position	<u>\$ 3,272,040</u>	<u>\$ 3,224,922</u>

See accompanying notes to the basic financial statements.

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2020 and 2019

Operating Revenues:	2020	2019
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,132,834	\$ 1,097,367
Total Charges for Services	<u>\$ 1,132,834</u>	<u>\$ 1,097,367</u>
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 6,970	\$ 29,740
Connection Fees	8,890	19,670
Miscellaneous	5,963	3,122
Total Other Charges and Miscellaneous	<u>\$ 21,823</u>	<u>\$ 52,532</u>
Total Operating Revenues	<u>\$ 1,154,657</u>	<u>\$ 1,149,899</u>
Operating Expenses:		
Bank Charges	\$ 1,631	\$ 2,087
Commissioner Fees	15,600	15,200
Contractual Service - Sampling	16,129	7,344
Data Usage - Cellular Read Meters	23,133	22,318
Dues	3,055	2,381
Employee Health Insurance and Benefits	50,215	71,460
Insurance	27,257	26,706
Labor	237,952	258,005
Maintenance of Mains	67,064	52,202
Office Supplies and Expense	40,561	40,016
Other Employee Post Retirement Benefits	26,736	15,217
Other Interest Expense	142	651
Payroll Taxes	19,080	20,018
Professional Services	15,045	16,590
Purchased Water	7,849	7,857
Regulatory Fees	2,319	2,298
Retirement Plan Expense	104,800	120,928
Travel/Transportation Expense	11,708	21,376
Uniforms	5,003	6,676
Office Utilities and Maintenance	12,613	17,249
Utilities - Pumping	54,824	58,637
Depreciation Expense	253,484	254,942
Total Operating Expenses	<u>\$ 996,200</u>	<u>\$ 1,040,158</u>
Operating Income (Loss)	<u>\$ 158,457</u>	<u>\$ 109,741</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 16,405	\$ 21,799
Interest Expense	(86,518)	(108,670)
Bond Issuance Expenses	(61,701)	-
Gain (Loss) on Asset Disposition	(1,165)	6,305
Total Nonoperating Revenues (Expense)	<u>\$ (132,979)</u>	<u>\$ (80,566)</u>
Income (Loss) Before Contributions	\$ 25,478	\$ 29,175
Capital Contributions	<u>21,640</u>	<u>8,318</u>
Change in Net Position	\$ 47,118	\$ 37,493
Net Position - Beginning	<u>3,224,922</u>	<u>3,187,429</u>
Net Position	<u>\$ 3,272,040</u>	<u>\$ 3,224,922</u>

See accompanying notes to the basic financial statements.

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,118,414	\$ 1,152,417
Payments to Suppliers	(66,853)	(73,052)
Payments to Employees	(253,413)	(261,484)
Other Receipts (Payments)	(340,099)	(381,854)
Net Cash Provided (Used) by Operating Activities	<u>\$ 458,049</u>	<u>\$ 436,027</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 24,542	\$ 8,318
Purchases of Capital Assets	(47,882)	(87,435)
Proceeds - Sale of Assets	-	6,305
Proceeds - New Bond Issue	1,590,000	-
Proceeds - Bond Premium	53,516	-
Bond Issuance Costs	(61,701)	-
Principal Paid on Capital Debt	(1,701,984)	(111,749)
Interest Paid on Capital Debt	(110,136)	(115,397)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (253,645)</u>	<u>\$ (299,958)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	\$ (541,656)	\$ (17,227)
Cashed Investments	525,102	-
Interest on Investments	18,271	20,849
Net Cash Provided (Used) by Investing Activities	<u>\$ 1,717</u>	<u>\$ 3,622</u>
Net (Increase) in Cash and Cash Equivalents	\$ 206,121	\$ 139,691
Balances-Beginning of the Year	<u>759,167</u>	<u>619,476</u>
Balances-End of the Year	<u>\$ 965,288</u>	<u>\$ 759,167</u>

	Balances Per December 31, 2020 Statement of Net Position	Balances Per December 31, 2020 Statement of Cash Flows
Cash	\$ 743,701	\$ 743,701
Time Deposits	887,896	-
Restricted Cash	221,587	221,587
Restricted Time Deposits	-	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,853,184</u>	<u>\$ 965,288</u>

	Balances Per December 31, 2019 Statement of Net Position	Balances Per December 31, 2019 Statement of Cash Flows
Cash	\$ 213,342	\$ 213,342
Time Deposits	763,327	-
Restricted Cash	545,825	545,825
Restricted Time Deposits	108,015	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,630,509</u>	<u>\$ 759,167</u>

(Continued)

**GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 158,457	\$ 109,741
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	253,484	254,942
Pension Expense	59,199	77,087
OPEB Expense	15,119	1,006
Change in Assets and Liabilities:		
Receivables, Net	(36,941)	4,489
Inventories	7,446	(8,162)
Prepaid Expenses	(2,681)	(19)
Accounts and Other Payables	3,295	(4,812)
Accrued Expenses	281	3,580
Customer Meter Deposits Payable	390	(1,825)
Net Cash Provided by Operating Activities	<u>\$ 458,049</u>	<u>\$ 436,027</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2020 and 2019, Gallatin County Water District had no capital expenditures or other noncash investing activities outstanding.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The Gallatin County Water District is a rural water company serving approximately 1,890 customers in Gallatin, Grant and Boone Counties of Kentucky, and regulated by the Public Service Commission of the Commonwealth of Kentucky. The Water District was formed under the laws of Gallatin County in September 1960 through the Fiscal Court (reaffirmed in 1985) and began operations in July 1989.

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

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

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

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

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

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

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

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

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

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

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	40 years
- Distribution System	30-50 years
- Wells	35 years
- Machinery & Equipment	5-20 years

Inventory: Inventories are stated at latest cost.

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

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

Post Employment Benefits Other Than Pensions

For purposes of measuring the net liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Commonwealth of Kentucky's County 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.

Bond Premium: Original issue debt premiums are amortized as a component of interest expense over the life of the associated debt using the interest method. Unamortized premiums are reported as an addition to the face amount of the debt in the Statement of Net Position.

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

Income Taxes: The Gallatin County Water District is not subject to income taxes.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. No grant monies were received in the years ended December 31, 2020 and 2019. Tap-on fees of \$21,640 and \$8,318 were received by the District for the years ended December 31, 2020 and 2019.

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

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

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

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

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Gallatin County Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The KRWFC Sinking Accounts are held at Regions Bank. These two accounts were established with the issuance of the Kentucky Rural Water Finance Corporation 2017A and 2020C Refunding Revenue Bonds. Under the debt agreements which established the accounts, it was provided that monthly sinking fund payments be made as follows:

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

A funded maintenance and replacement reserve is required by the District's Assistance Agreement (B99-02) with the Kentucky Infrastructure Authority. Under the agreement, the District must deposit into this account an amount equal to 10% of the amount of the loan payment until the amount accumulated on deposit is equal to 5% of the original principal amount of the loan. Transfers were made as required in 2020 and 2019.

NOTE 3 – CASH AND INVESTMENTS

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

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2020 and 2019, in accordance with the District's policy, \$1,747,762 and \$1,505,863 respectively, of the District's deposits were covered by federal depository insurance or Federal Home Loan Bank letters of credit. Additionally the depository had pledged securities held by the financial institution's agent in the District's name with market values of \$140,089 and \$180,144 at December 31, 2020 and 2019, respectively as additional collateral. Thus the District had no deposits that were exposed to custodial credit risk.

December 31, 2020

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 228,552	\$ 225,681
Time and Savings Deposits	1,627,413	1,627,413
Total Deposits	<u>\$ 1,855,965</u>	<u>\$ 1,853,094</u>

December 31, 2019

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 211,670	\$ 213,252
Time and Savings Deposits	1,417,167	1,417,167
Total Deposits	<u>\$ 1,628,837</u>	<u>\$ 1,630,419</u>

Reconciliation to Statement of Net Position:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Unrestricted Cash, Including Time Deposits	\$ 1,631,597	\$ 976,669
Restricted Cash, Including Time Deposits	221,587	653,840
Less Cash on Hand	(90)	(90)
	<u>\$ 1,853,094</u>	<u>\$ 1,630,419</u>

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Bond and Interest Sinking Account - RD	\$ -	\$ 67,505
Depreciation Account	-	362,875
Customer Deposits	31,181	30,793
Speedway Maintenance and Replacement Reserve	37,644	37,458
Short Lived Assets Account	-	69,346
Bond and Interest Sinking Account - KRWF	152,762	85,863
Total	<u>\$ 221,587</u>	<u>\$ 653,840</u>

Restricted receivables consist of the following:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Interest Receivable	\$ -	\$ 550
Total	<u>\$ -</u>	<u>\$ 550</u>

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$7,949 and \$10,295 at December 31, 2020 and 2019, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CAPITAL ASSETS

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

	<u>Balance at January 1, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2020</u>
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	360,165	-	-	360,165
Distribution System	9,603,497	23,593	-	9,627,090
Wells	372,187	-	-	372,187
Machinery & Equipment	351,419	24,289	2,119	373,589
Construction in Process	-	-	-	-
Totals at Historical Cost	<u>\$ 10,945,423</u>	<u>\$ 47,882</u>	<u>\$ 2,119</u>	<u>\$ 10,991,186</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	152,310	9,354	-	161,664
Distribution System	4,928,310	212,549	-	5,140,859
Wells	208,729	9,854	-	218,583
Machinery & Equipment	254,997	21,727	954	275,770
Total Accumulated Depreciation	<u>\$ 5,576,272</u>	<u>\$ 253,484</u>	<u>\$ 954</u>	<u>\$ 5,828,802</u>
Capital Assets, Net	<u>\$ 5,369,151</u>	<u>\$ (205,602)</u>	<u>\$ (1,165)</u>	<u>\$ 5,162,384</u>

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at January 1, 2019	Additions	Disposals	Balance at December 31, 2019
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	360,165	-	-	360,165
Distribution System	9,520,008	83,489	-	9,603,497
Wells	372,187	-	-	372,187
Machinery & Equipment	303,157	67,469	19,207	351,419
Construction in Process	71,758	11,647	83,405	-
Totals at Historical Cost	<u>\$ 10,885,430</u>	<u>\$ 162,605</u>	<u>\$ 102,612</u>	<u>\$ 10,945,423</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	142,956	9,354	-	152,310
Distribution System	4,711,585	216,725	-	4,928,310
Wells	198,875	9,854	-	208,729
Machinery & Equipment	255,195	19,009	19,207	254,997
Total Accumulated Depreciation	<u>\$ 5,340,537</u>	<u>\$ 254,942</u>	<u>\$ 19,207</u>	<u>\$ 5,576,272</u>
Capital Assets, Net	<u>\$ 5,544,893</u>	<u>\$ (92,337)</u>	<u>\$ 83,405</u>	<u>\$ 5,369,151</u>

Land and land rights are capital assets not being depreciated. Included under the District's plant assets were \$1,741,834 and \$1,731,322 of fully depreciated assets, at December 31, 2020 and 2019, respectively.

Depreciation expense aggregated \$253,484 and \$254,942 in 2020 and 2019, respectively.

NOTE 7 – CUSTOMER DEPOSITS/ESCROW

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

Escrow - Customer construction deposits represent amounts collected for hookups on future line extensions and/or hookup deposits held for services not installed.

NOTE 8 – LONG-TERM DEBT

On July 11, 2017, the Gallatin County Water District issued \$1,180,000 Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2017A to defease the \$1,199,200 of its 1988A, 1988B, 1993, 1996, 2000A, 2000B and 2002 bonds outstanding as of that date. As a result of the defeasement, the District reduced its total debt service requirements by \$224,751, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$122,808. Final maturity on the 2017A issue is July 1, 2039. A reoffering premium was received in the amount of \$49,007. The premium will be amortized as a reduction of interest expense over the life of the new issue.

On March 17, 2020, the Gallatin County Water District issued \$1,590,000 Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2020C, to defease the \$1,583,600 of its 2006A and 2006B bonds outstanding as of that date. The defeased bonds had an interest rate of 4.125%. The 2020C bonds were issued at 2.2% - 5.2%. As a result of the defeasement, the District reduced its total debt service requirements by

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 8 – LONG-TERM DEBT (Continued)

\$389,096, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$270,736. Final maturity on the 2020C issue is February 1, 2047. Underwriting expenses and other costs of issuance were \$61,701. A reoffering premium was received in the amount of \$53,516. The premium will be amortized as a reduction of interest expense over the life of the new issue.

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

Notes Payable:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Kentucky Infrastructure Authority note payable represents a thirty year loan secured by water revenues. Interest is charged at 1.3% per annum. The original principal balance was \$744,796. Payments of principal, interest, and servicing fees are due semiannually. Final maturity is June 1, 2031.	\$ 294,156	\$ 320,140
Total Notes Payable	<u>\$ 294,156</u>	<u>\$ 320,140</u>
Current Portion	\$ 26,322	\$ 25,984
Noncurrent Portion	267,834	294,156
Total Notes Payable	<u>\$ 294,156</u>	<u>\$ 320,140</u>

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

Bonds Payable:

RECD Revenue Bonds of 2006, Series A, original issue amount of \$1,394,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is January 1, 2046.

\$ -	\$ 1,188,000
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RECD Revenue Bonds of 2006, Series B original issue amount of \$500,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is January 1, 2046.

-	428,000
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KRWFC Flexible Term Program Series 2017A, original issue amount of \$1,180,000, secured by water revenues. Interest is charged at the rate of 3.2% to 4.2% per annum. Final maturity is February 1, 2039.

1,040,000	1,100,000
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KRWFC Public Projects Refunding and Improvement Revenue Bonds Series 2020C, original issue amount \$1,590,000, secured by water revenues. Interest is charged at the rate of 2.2% to 5.2% per annum. Final maturity is February 1, 2047.

1,590,000	-
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Total Bonds Payable	<u>\$ 2,630,000</u>	<u>\$ 2,716,000</u>
Current Portion	\$ 95,000	\$ 92,400
Noncurrent Portion	2,535,000	2,623,600
Total Bonds Payable	<u>\$ 2,630,000</u>	<u>\$ 2,716,000</u>

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 8 – LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

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

Accrued Compensated Absences:

Current Accrued Compensated Absences	\$	6,900	\$	5,569
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Bond Premium

Bond Premiums associated with the Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2017A and series 2020C are to be amortized over the life of the bonds and reported as a component of interest expense using the interest method. The original premium received at the issuance of the 2017A Series, July 11, 2017, was \$49,007. Amortization for the year ended December 31, 2020 and 2019 was \$4,624 and \$4,903, respectively. The unamortized premium balance was \$31,406 and \$36,030 at December 31, 2020 and 2019, respectively.

The original premium received at the issuance of the 2020 C Series, March 17, 2020, was \$53,516. Amortization for the year ended December 31, 2020 was \$1,473. The unamortized premium balance was \$52,043.

Changes in Long-term Debt

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

December 31, 2020

	Balance at January 1, 2020	Additions	Reductions	Balance at December 31, 2020	Current Portion
Notes Payable	\$ 320,140	\$ -	\$ 25,984	\$ 294,156	\$ 26,322
Bonds Payable	2,716,000	1,590,000	1,676,000	2,630,000	95,000
Accrued Compensated Absences	5,569	20,077	18,746	6,900	6,900
Total Long-Term Debt	<u>\$ 3,041,709</u>	<u>\$ 1,610,077</u>	<u>\$ 1,720,730</u>	<u>\$ 2,931,056</u>	<u>\$ 128,222</u>

December 31, 2019

	Balance at January 1, 2019	Additions	Reductions	Balance at December 31, 2019	Current Portion
Notes Payable	\$ 345,789	\$ -	\$ 25,649	\$ 320,140	\$ 25,984
Bonds Payable	2,802,100	-	86,100	2,716,000	92,400
Accrued Compensated Absences	4,596	19,265	18,292	5,569	5,569
Total Long-Term Debt	<u>\$ 3,152,485</u>	<u>\$ 19,265</u>	<u>\$ 130,041</u>	<u>\$ 3,041,709</u>	<u>\$ 123,953</u>

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt (Continued)

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

<u>Due</u>	<u>Bonds</u>	<u>Bond Interest</u>	<u>KIA Note</u>	<u>Note Interest</u>	<u>Note Servicing Fee</u>	<u>Total Payments Due</u>
2021	\$ 95,000	\$ 84,746	\$ 26,322	\$ 3,739	\$ 575	\$ 210,382
2022	105,000	80,171	26,666	3,395	522	215,754
2023	105,000	75,361	27,014	3,048	469	210,892
2024	105,000	70,551	27,366	2,695	415	206,027
2025	115,000	65,506	27,723	2,338	360	210,927
2026-2030	615,000	248,436	144,132	6,174	950	1,014,692
2031-2035	550,000	159,217	14,933	97	15	724,262
2036-2040	420,000	94,230	-	-	-	514,230
2041-2045	360,000	45,161	-	-	-	405,161
2046-2047	160,000	4,320	-	-	-	164,320
	<u>\$ 2,630,000</u>	<u>\$ 927,699</u>	<u>\$ 294,156</u>	<u>\$ 21,486</u>	<u>\$ 3,306</u>	<u>\$ 3,876,647</u>

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

<u>Due</u>	<u>Bonds</u>	<u>Bond Interest</u>	<u>KIA Note</u>	<u>Note Interest</u>	<u>Note Servicing Fee</u>	<u>Total Payments Due</u>
2020	\$ 92,400	\$ 106,132	\$ 25,984	\$ 4,078	\$ 627	\$ 229,221
2021	93,800	102,246	26,322	3,739	575	226,682
2022	100,200	98,198	26,666	3,395	522	228,981
2023	101,600	93,987	27,014	3,048	469	226,118
2024	103,100	89,717	27,366	2,695	415	223,293
2025-2029	584,500	378,481	142,277	8,029	1,235	1,114,522
2030-2034	547,700	271,334	44,511	580	89	864,214
2035-2039	482,300	173,361	-	-	-	655,661
2040-2044	417,400	84,282	-	-	-	501,682
2045-2046	193,000	8,048	-	-	-	201,048
	<u>\$ 2,716,000</u>	<u>\$ 1,405,786</u>	<u>\$ 320,140</u>	<u>\$ 25,564</u>	<u>\$ 3,932</u>	<u>\$ 4,471,422</u>

NOTE 9 – COMPENSATED ABSENCES

Vacation days accumulate as follows:

At the end of 1 st year	1 week of vacation
At the end of 2 nd year	2 weeks of vacation
At the end of 5 th year	3 weeks of vacation

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 9 – COMPENSATED ABSENCES (Continued)

Vacation, if not taken in the calendar year due, is lost, unless specifically approved by the Commissioners. In 2001, the District approved a policy under which employees accrue 5 days of personal leave per year. In 2009, the District approved a policy under which an employee may accumulate up to 60 days (previously it was 30 days) personal leave. The District accrues a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria, the District accrues a liability for compensated absences. \$6,900 and \$5,569 of accrued compensated absences were payable at December 31, 2020 and December 31, 2019, respectively.

NOTE 10 – INTEREST EXPENSE

Interest expense incurred and charged to expense, net of bond premium amortization, for the years ended December 31, 2020 and 2019 was \$86,660 and \$109,321, respectively.

NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION

	<u>2020</u>	<u>2019</u>
Restricted for Debt Service:		
Kentucky Rural Water		
Flexible Term Finance Program Bonds and Kentucky		
Infrastructure Authority Note		
Cash	\$ 190,406	\$ 553,701
Add: Accrued Interest Receivable	-	550
Less: Accrued Interest Payable	(36,857)	(54,377)
Total Restricted for Debt Service	<u>\$ 153,549</u>	<u>\$ 499,874</u>

Unrestricted net position was reduced by \$74,318 and \$78,093 for the years ended June 30, 2020 and 2019, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability and Net OPEB Liability. The accounts affected were as follows:

	<u>2020</u>	<u>2019</u>
Increase (Decrease) in Deferred Outflows of Resources	15,425	17,949
(Increase) Decrease in Deferred Inflows of Resources	13,591	(6,172)
(Increase) Decrease in Net Pension Liability	(37,677)	(98,450)
(Increase) Decrease in Net OPEB Liability	(65,657)	8,580
Net Decrease in Unrestricted Net Position	<u>(74,318)</u>	<u>(78,093)</u>

NOTE 12 – BAD DEBT EXPENSE

Water revenue charges have been netted with estimated bad debt expense of \$6,639 and \$9,628 at December 31, 2020 and 2019, respectively.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 13 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. The District is also subject to the risks associated with employee injury. Each of these risks is covered through coverage provided by Allied World Assurance Company, LTD (property/general liability) and Kentucky Employer Mutual Insurance (KEMI) (Workers Compensation).

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN)

The Gallatin County Water District participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees.

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

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

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

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

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

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

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

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

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

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

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

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

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

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

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

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

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

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

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

Contributions - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. Under House Bill 352, the 2020 General Assembly only passed a one year budget (for the fiscal year ended June 30, 2021 due to the COVID-19 pandemic crisis. For the fiscal years ended June 30, 2020 and 2019 participating non-hazardous employers contributed 24.06% and 21.48%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2020 and 2019 were 27.28% and 28.05%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

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

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

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

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

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

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

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

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

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

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

Item	CERS June 30, 2020 Non-Hazardous	CERS June 30, 2019 Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2018	June 30, 2017
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Amortization Period:	25 Years, Closed	26 Years, Closed
Payroll Growth Rate:	2.00%	2.00%
Investment Return:	6.25%	6.25%
Inflation:	2.30%	2.30%
Salary Increases:	3.30% to 11.55%, varies by service	3.30% to 11.55%, varies by service
Mortality:	RP-200 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females). For healthy retired members and beneficiaries, the mortality table used is the RP Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 combined disabled mortality table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.	RP-200 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females). For healthy retired members and beneficiaries, the mortality table used is the RP Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 combined disabled mortality table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

The net position liability as of June 30, 2020, is based on the June 30, 2019 actuarial valuation rolled forward. The total pension liability, net pension liability and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled forward from the valuation date to the measurement date at June 30, 2020, using generally accepted actuarial principles.

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

There have been no assumption changes since June 30, 2019. Senate bill 249 passed during the 2020 Legislative Session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of total pension liability and only impacts the calculation of the contribution rates that would be payable starting June 1, 2020.

The actuarial assumptions are:

June 30, 2020 and 2019

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

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

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

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

Discount Rate

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

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

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
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NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

At December 31, 2020 and 2019 the District reported a liability of \$748,507 and \$710,830, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2020, and 2019 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, and 2019 the District's proportion was 0.009759 and 0.010107 percent, respectively, which is a decrease of 0.000348% and an increase 0.000052% for the years ended June 30, 2020 and June 30, 2019, respectively.

The District's total payroll for the calendar year ended December 31, 2020 was \$259,653. Contributions to the CERS were based on \$244,053 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2020 were \$47,102.

The District's total payroll for the calendar year ended December 31, 2019 was \$272,734. Contributions to the CERS were based on \$257,534 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2019 were \$44,276.

All contributions were made as required.

The District's contribution for the County Employees' Retirement System's year(s) ended June 30, 2020, and 2019 was 0.009759 and 0.010107 percent, respectively, of the System's total contribution requirements for all employers.

For the years ended December 31, 2020, and December 31, 2019, the District recognized pension expense of \$104,800 and \$120,928, respectively. At December 31, 2020 and 2019 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	December 31, 2020		December 31, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 18,665	\$ -	\$ 18,150	\$ 3,003
Change in Assumptions	29,228	-	71,944	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,821	13,960	3,122	2,443
Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	32,445	13,715	13,645	25,104
District Contributions Made Subsequent to the NPL Measurement Date	23,621	-	23,316	-
Total	\$ 105,780	\$ 27,675	\$ 130,177	\$ 30,550

\$23,621 and \$23,316 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2021 and 2020, respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

		Increase (Decrease) to Pension Expense
Year Ended December 31, 2020:		
	2021	\$ 24,789
	2022	14,004
	2023	8,169
	2024	7,522
		<u>\$ 54,484</u>
		Increase (Decrease) to Pension Expense
Year Ended December 31, 2019:		
	2020	\$ 48,910
	2021	18,871
	2022	7,717
	2023	813
		<u>\$ 76,311</u>

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

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

	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
As of June 30, 2020			
Net Pension Liability	\$ 9,458,676,903	\$ 7,669,917,211	\$ 6,188,756,202
District's Proportionate Share	923,072	748,507	603,961
	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
As of June 30, 2019			
Net Pension Liability	\$ 8,796,343,903	\$ 7,033,044,552	\$ 5,563,351,626
District's Proportionate Share	889,046	710,830	562,288

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

Payable to the Pension Plan

At December 31, 2020 and 2019, the District reported a payable of \$4,312 and \$5,252 for the outstanding amount of contributions required for the years then ended. The amount represents the employee withholding and employer match for the last month of the years then ended.

**GALLATIN COUNTY WATER DISTRICT
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NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

OPEB PLAN

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

Contributions

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

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

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

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

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

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

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

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

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
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The actuarially determined contribution rates for the OPEB plan effective for fiscal years ending 2020 and 2019 are calculated based on the actuarial methods and assumptions below:

Item	CERS June 30, 2020 Non-Hazardous	CERS June 30, 2019 Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2018	June 30, 2017
Experience Study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Amortization Period:	25 Years, Closed	26 Years, Closed
Payroll Growth Rate:	2.00%	2.00%
Investment Return:	6.25%	6.25%
Inflation:	2.30%	2.30%
Salary Increases:	3.30% to 11.55%, varies by service	3.30% to 11.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)	The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.	Board Certified Rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
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**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)**

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

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

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

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

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

The actuarial assumption used are:

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

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

Item	CERS June 30, 2020 Non-Hazardous	CERS June 30, 2019 Non-Hazardous
Inflation	2.30%	2.30%
Payroll Growth Rate	2.00%	2.00%
Salary Increases	3.05% average	3.30% - 10.30% varies by service
Investment Rate of Return	6.25%	6.25%
Healthcare Trend Rates Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Mortality Pre-retirement	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).	PUB-2010 General Mortality Table projected with th ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females).	System Specific Mortality Table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Post-retirement (disabled)	RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.	PUB-2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Discount Rate

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

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

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

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

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

At December 31, 2020 and 2019 the District reported a liability of \$235,602 and \$169,945, respectively.

The District's total payroll for the calendar year ended December 31, 2020 was \$259,653. Contributions were based on \$244,053 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2020 were \$11,617.

The District's total payroll for the calendar year ended December 31, 2019 was \$272,734. Contributions were based on \$257,534 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2019 were \$14,353.

All contributions were made as required.

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

The District's contribution for the County Employee's Retirement System's (Insurance Plan) for the years ended June 30, 2020 and 2019 was 0.009757 percent and 0.010104 percent, respectively, of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the years ended June 30, 2020 and 2019 was \$4,903 and \$2,955, respectively.

For the years ended December 31, 2020 and 2019, the District recognized expense of \$26,736 and \$15,217, respectively. At December 31, 2020 and 2019 the District reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

	December 31, 2020		December 31, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 39,364	\$ 39,395	\$ -	\$ 51,276
Change in Assumptions	40,981	249	50,288	336
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	108	6,545	133	1,432
Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments	12,638	4,807	1,119	8,668
District Contributions Made Subsequent to the Net OPEB Measurement Date	5,829	-	7,558	-
Total	\$ 98,920	\$ 50,996	\$ 59,098	\$ 61,712

\$5,829 and \$7,558 reported as deferred outflows of resources related to OPEB arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the years ended December 31, 2021 and 2020 respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources and deferred inflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

Year Ended December 31, 2020:		Increase (Decrease) to OPEB Expense
2021	\$	11,200
2022		13,518
2023		9,081
2024		8,860
2025		(564)
	\$	42,095
Year Ended December 31, 2019:		Increase (Decrease) to OPEB Expense
2020	\$	(1,594)
2021		(1,594)
2022		806
2023		(3,791)
2024		(3,418)
Thereafter		(581)
	\$	(10,172)

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Payable to the OPEB Health Insurance Plan

At December 31, 2020 and 2019, the District reported a payable of \$1,064 and \$1,703, respectively for the outstanding amount of contributions required for the years then ended. This amount represents the employee withholding and employer match for the last month of the years then ended.

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

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

As of June 30, 2020	1% Decrease [4.34%]	Current Discount [5.34%]	1% Increase [6.34%]
Net OPEB Liability	\$ 3,102,175,364	\$ 2,414,695,884	\$ 1,850,046,176
District's Proportionate Share	302,679	235,602	180,509

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

As of June 30, 2020	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 1,869,578,166	\$ 2,414,695,884	\$ 3,076,209,120
District's Proportionate Share	182,415	235,602	300,146

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

As of June 30, 2019	1% Decrease [4.68%]	Current Discount [5.68%]	1% Increase [6.68%]
Net OPEB Liability	\$ 2,253,127,713	\$ 1,681,954,950	\$ 1,211,345,586
District's Proportionate Share	227,656	169,945	122,394

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

As of June 30, 2019	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 1,250,878,480	\$ 1,681,954,950	\$ 2,204,686,275
District's Proportionate Share	126,389	169,945	222,762

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2020 and 2019**

NOTE 15 – RESALE AGREEMENT

The District has entered into a water resale agreement with the Kentucky American Water District under which agreement, Gallatin County Water District will sell its water to Kentucky American Water at a price of \$1.46 per thousand gallons. A minimum of 559,567 gallons is required to be purchased monthly. The agreement is for a term of 20 years with automatic one year extensions unless terminated by either party upon written notice as specified. Rates may be modified by providing 180 days notice, or by regulatory authority action.

NOTE 16 - PURCHASED WATER CONTRACT

Gallatin County Water District has a long-term contract with the City of Warsaw for the purchase of treated water. The original contract for water became effective July 28, 1986, and extended for a period of forty-five (45) years. On June 13, 2007 the contract was amended. Under the agreement, Gallatin County Water District will be charged \$1.25 per 1,000 gallons purchased, with a minimum of 500,000 gallons to be purchased monthly.

NOTE 17 – WATER SUPPLY AGREEMENT – ECONOMIC DEPENDENCY

The District has entered into a water-supply agreement with Kentucky Speedway, LLC. Under the terms of the agreement, Kentucky Speedway, LLC is assessed an annual minimum charge of \$35,000 for annual usage equal to that charge under the District's approved rates. The Speedway is billed monthly the minimum installment plus sales tax and school tax. When accumulated usage exceeds the annual maximum, the Speedway is charged the current rates in effect for that usage. 3.5% and 3.7% of total water revenue was received from Kentucky Speedway, LLC for the years ended December 31, 2020 and 2019, respectively. Additionally, the District received 6.4% and 7.2% from the commercial enterprise, Mississippi Lime, Inc. for the years ended December 31, 2020 and 2019, respectively.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

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

NOTE 19 – SUBSEQUENT EVENTS

Management has considered subsequent events through the date of this report March 8, 2020, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2020. However, the following significant events occurred after December 31, 2020:

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

GALLATIN COUNTY WATER DISTRICT

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset) %	0.009759%	0.010107%	0.010055%	0.010106%	0.010362%	0.010281%	0.010202%
District's proportionate share of the net pension liability (asset)	\$ 748,507	\$ 710,830	\$ 612,380	\$ 591,535	\$ 510,172	\$ 442,034	\$331,000
District's covered payroll (calendar year)	\$ 244,053	\$ 257,534	\$ 253,029	\$245,249	\$ 244,405	\$ 241,061	\$243,426
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	306.69%	276.01%	242.02%	241.20%	208.74%	183.37%	135.98%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.3%	55.5%	59.97%	62.60%

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

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

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

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

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

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

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

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

Years Ended December 31

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contributions	\$ 47,102	\$ 44,276	\$ 38,567	\$ 34,817	\$ 30,355	\$ 30,109
Contributions in relation to the contractually required contributions	47,102	44,276	38,567	34,817	30,355	30,109
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (calendar year)	\$ 244,053	\$ 257,534	\$ 253,029	\$ 245,249	\$ 244,405	\$ 241,061
Contributions as a percentage of covered payroll	19.30%	17.20%	15.24%	14.20%	12.42%	12.49%

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

GALLATIN COUNTY WATER DISTRICT

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

Years Ended December 31

	2020	2019	2018	2017
District's proportion of the net OPEB liability (asset) %	0.009757%	0.010104%	0.010055%	0.010106%
District's proportionate share of the net OPEB liability (asset)	\$ 235,602	\$ 169,945	\$ 178,525	\$ 203,165
District's covered payroll (Calendar Year)	\$ 244,053	\$ 257,534	\$ 253,029	\$ 245,249
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	96.53%	65.60%	70.55%	82.55%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.4%

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

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

District covered payroll is reported for its calendar year.

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

Actuarial Methods and Assumptions for Determining Net OPEB Liability:

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

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

Years Ended December 31

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contributions	\$ 11,617	\$ 14,353	\$ 12,856	\$ 11,605	\$ 13,328	\$ 11,727
Contributions in relation to the contractually required contributions	11,617	14,353	12,856	11,605	13,328	11,727
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (calendar year)	\$ 244,053	\$ 257,534	\$ 253,029	\$ 245,249	\$ 244,405	\$ 241,061
Contributions as a percentage of covered payroll	4.76%	5.57%	5.10%	4.73%	5.45%	4.86%

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

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

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

To the Commissioners of the
Gallatin County Water District
Sparta, KY 41086

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gallatin County Water District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Gallatin County Water District's basic financial statements, and have issued our report thereon dated March 8, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Gallatin County Water 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 Gallatin County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Gallatin County Water District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Gallatin County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

GALLATIN COUNTY WATER DISTRICT'S RESPONSE TO FINDINGS

Gallatin County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Gallatin 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.

Raisor, Zapp & Woods, PSC

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

March 8, 2021

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2020**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Gallatin County Water District were prepared in accordance with GAAP.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2020-001 and 2020-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Gallatin County Water District were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

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

CONDITION:

District personnel have implemented sound oversight procedures over cash reconciliations and the monthly billing and expense disbursement processes. However due to the size of the District's administrative staff mispostings may occur and not be corrected. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2019 as 2019-001.

CRITERIA:

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

CAUSE:

One individual is responsible for posting the general ledger. Mispostings may occur and not be recognized.

EFFECT:

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

RECOMMENDATION:

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

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

We concur with the recommendation. Management will continue their efforts in the review of underlying transactions and checking procedures associated with its financial information.

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2020**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

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

CONDITION:

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

CRITERIA:

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

CAUSE:

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

EFFECT:

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements.

RECOMMENDATION:

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

IEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

NONE