

**POWELL'S VALLEY WATER DISTRICT**  
**Clay City, Kentucky**

**REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**  
**for the year ended December 31, 2020**

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Powell's Valley Water District  
Clay City, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Powell's Valley Water District as of and for the year ended December 31, 2020, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Powell's Valley Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 respective financial position of the business-type activities of the Powell's Valley Water District, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

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

The Schedule of Employer's Proportionate Share of Net Pension Liability, the Schedule of Employer's Contributions – Net Pension Liability, Schedule of Employer's Proportionate Share of Net OPEB Liability and the Schedule of Employer's Contributions – Net OPEB Liability are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Powell's Valley Water District basic financial statements. The Comparative Statement of Revenues and Expenses and the Statement of Revenues and Expenses – Water and Sewer are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Comparative Statement of Revenues and Expenses and the Statement of Revenues and Expenses – Water and Sewer are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Comparative Statement of Revenues and Expenses and the Statement of Revenues and Expenses – Water and Sewer are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 03, 2021, on our consideration of the Powell's Valley 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Powell's Valley Water District's internal control over financial reporting and compliance.

*John T. Lane & Associates LLC*

Mount Sterling, Kentucky

June 03, 2021

This report contains 30 pages.

POWELL'S VALLEY WATER DISTRICT  
Statement of Net Position  
Proprietary Fund  
December 31, 2020

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	\$ 206,828
Cash and cash equivalents - restricted (note 1)	331,038
Accounts receivable - net of allowance for doubtful accounts (note 1)	132,694
Inventory (note 1)	8,682
Prepaid expenses	<u>3,078</u>
Total Current Assets	<u>682,320</u>
Noncurrent Assets	
Capital assets:	
Land	16,888
Plant, equipment and lines	10,438,141
Less accumulated depreciation	<u>(4,567,143)</u>
Total Noncurrent Assets	<u>5,887,886</u>
Deferred Outflows of Resources	<u>206,944</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 6,777,150</u></u>
LIABILITIES	
Current Liabilities	
Accrued expenses	\$ 78,745
Notes payable	15,954
Bonds payable	78,000
Payable from restricted assets	<u>135,208</u>
Total Current Liabilities	<u>307,907</u>
Noncurrent Liabilities	
Notes payable	13,597
Net pension liability	720,129
Net OPEB liability	226,643
Bonds payable	<u>1,925,700</u>
Total Noncurrent Liabilities	<u>2,886,069</u>
Deferred Inflows of Resources	<u>67,209</u>
Total Liabilities and Deferred Inflows of Resources	<u><u>3,261,185</u></u>
NET POSITION	
Net investment in capital assets	3,854,635
Restricted	195,830
Unrestricted	<u>(534,500)</u>
Total Net Position	<u><u>\$ 3,515,965</u></u>

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

POWELL'S VALLEY WATER DISTRICT  
 Statement of Revenues, Expenses and Changes in Fund Net Position  
 Proprietary Fund  
 for the year ended December 31, 2020

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Operating Revenues	
User fees	\$ 1,350,776
Other water revenue	19,323
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Total Operating Revenues	1,370,099
	<hr/>
Expenses	
Water purchased	409,205
Salaries	250,183
Office	15,518
Insurance	39,936
Taxes	21,171
Outside services	53,140
Employee benefits	280,499
Miscellaneous	4,067
Depreciation	293,331
Supplies	151,850
Utilities	76,516
Vehicle expense	17,071
	<hr/>
Total Operating Expenses	1,612,487
	<hr/>
Operating Income (Loss)	(242,388)
	<hr/>
Nonoperating Revenues (Expenses)	
Miscellaneous income	5,819
Interest income	997
Interest expense	(74,882)
	<hr/>
Net Nonoperating Revenues (Expenses)	(68,066)
	<hr/>
Change in Net Position	(310,454)
	<hr/>
Total Net Position - beginning	3,826,419
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Total Net Position - ending	\$ 3,515,965
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The accompanying notes are an integral part of the financial statements.

POWELL'S VALLEY WATER DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
December 31, 2020

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 1,343,614
Cash paid to employees	(250,183)
Cash paid for general and administrative expenses	<u>(971,858)</u>
Net Cash provided / (used) by operating activities	<u>121,573</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	997
Customer deposits	<u>(8,186)</u>
Net Cash provided / (used) by investing activities	<u>(7,189)</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Miscellaneous revenue	5,819
Bond payments	(76,000)
Loan payments	(15,425)
Interest paid	<u>(74,882)</u>
Net Cash provided / (used) in capital and financing activities	<u>(160,488)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(46,104)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>583,970</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 537,866</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (242,388)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(increase) / decrease in prepaid	8,352
(increase) / decrease in inventory	1,212
depreciation	293,331
increase / (decrease) in pension/OPEB expense due to GASB 68/75	73,635
(increase) / decrease in accounts receivable	(26,485)
increase / (decrease) in accounts payable	<u>13,916</u>
Net cash provided / (used) by operating activities	<u><u>\$ 121,573</u></u>

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

POWELL'S VALLEY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2020

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Note 1 - Summary of Significant Accounting Policies

The Powell's Valley Water District is a water utility which services areas of Powell County. Its sales are primarily to residential customers. The District is a corporate body set forth in KRS 74.070 which was created November 1961. The District is subject to the regulatory authority of The Kentucky Public Service Commission pursuant to KRS 278.040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Powell's Valley Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The required balance of the fund at year end was \$16,692. The District had set aside \$73,754 into this fund on December 31, 2020.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund on December 31, 2020 was \$122,404. The District had set aside \$163,243.

Short Lived Asset Account – This account is separate from the Depreciation Reserve account, and the amount of \$900 should be deposited into the account each month in accordance with the Letter of Conditions for the USDA Rural Development loan number 91-21. In August of 2018, the Board approved a motion to make a \$900 deposit into this account in the amount of \$900 when cash flow allowed. The balance of the account at year end was \$61.

Enterprise Funds

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water District's principal ongoing operations. The principal operating revenues of the Water District are operating grants and tenant rental revenue. Operating expenses of the Water District include the cost of producing the revenue and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (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.

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. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segmented into net investment in capital assets, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Basis of Accounting

The records of the District are maintained, and the budgetary process is based on the accrual method of accounting.



### Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded at cost as an asset at that time.

### Deposits

The District considers all highly liquid investments with a maturity date of twelve months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents. On December 31, 2020, the carrying amount of the District's deposits was \$537,866 and the bank balance was \$625,146. Of the bank balance 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Summary of Cash & Cash Equivalents			
Description	Water	Sewer	Total
Deposit fund	\$ 93,980	\$ -	\$ 93,980
Operating fund	141,278	18,187	159,465
Sinking fund	139,397	23,846	163,243
Depreciation reserve fund	65,378	8,376	73,754
Short-Lived Assets 91-21	61	-	61
Certificate of deposit	46,683		46,683
Cash on hand	680	-	680
Totals	<u>\$ 487,457</u>	<u>\$ 50,409</u>	<u>\$ 537,866</u>

### Capital Assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Lines and tanks	50 years
Equipment	10 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

### Accounts Receivable

The receivable reflected in the statements in the amount of \$132,694 are net of allowance for uncollectibles in the amount of \$44,353.

### Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### Pensions

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

## Note 2 – Defined Benefit Pension Plan

**General Information About the Pension Plan**

*Plan description* - Regular, full-time, employees of the Water District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority. The assets of CERS are pooled with two other retirement systems Kentucky Public Pensions Authority administers, KERS & SPRS. Although invested each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Public Pensions Authority's Board of Trustees (Board). Kentucky Public Pensions Authority issues a publicly available financial report that can be obtained on their website.

*Benefits provided* - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Membership in the CERS Non-hazardous Pension Fund consisted of the following on June 30, 2019:

Membership Status

Retirees and beneficiaries receiving benefits	60,877
Inactive memberships	90,673
Active plan members	<u>83,458</u>
Total plan members	235,008

Prior to July 1, 2009, cost of living adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index (CPI) 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 1.50%. No COLA has been granted since July 1, 2011.

**Contributions**

The Commonwealth is required to contribute at an actuarially determined rate for KERS and SPRS pensions. Participating employers are required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Sections KERS 61.565(3), CERS 78.545(33), and SPRS 16.645(18), normal contribution and past service contribution rates shall be determined by the Board on the basis of the last annual valuation preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget for KERS and SPRS.

For the fiscal years ended June 30, 2020 and 2019, participating employers contributed a percentage of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal year is a percentage of each employee's creditable compensation. Administrative costs of KPPA are financed through employer contributions and investment earnings.

## TIER 1:

Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. 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.

## TIER 2:

Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute 6% (Non-Hazardous) or 9% (Hazardous) of their annual creditable compensation. Further, 1% of these contributions are 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 (KAR) 105 KAR 1:420 Employer's administrative duties). These members are classified in the Tier 2 structure of benefits. 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, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

TIER 3:

Tier 3 plan members, who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation, and an additional 1% to the health insurance fund (401(h) account), 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) or 7.5% (Hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

**Contribution Rates and Amounts for CERS Non-Hazardous**

Period	Pension	Insurance	Total	Employer		Employee
				Pension	Insurance	
01/01/2020-06/30/2020	19.30%	4.76%	24.06%	\$22,975	\$5,666	\$5,952
07/01/2020-12/31/2020	19.30%	4.76%	24.06%	<u>22,229</u>	<u>5,482</u>	<u>5,759</u>
Totals				\$45,204	\$11,149	\$11,711

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

At December 31, 2020, the Water District reported a liability of \$720,129 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water District's portion of the net pension liability was based on the Water District's proportionate share of retirement contributions for the fiscal year ended June 30, 2020. On June 30, 2020 the Water District's proportionate share was 0.009389%.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense, they are labeled deferred inflows. If they will increase pension expense, they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. For the year ended December 31, 2020, the Water District recognized pension expense of \$107,486. On December 31, 2020, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Liability Experience	\$ 17,958	\$ -0-
Changes in assumptions	28,120	-0-
Differences between expected and actual Investment Experience	31,215	13,195
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,923	5,627
Contributions subsequent to the measurement date	<u>22,229</u>	<u>-0-</u>
Total	\$ 105,445	\$ 18,822

\$22,229 reported as deferred outflows of resources related to pensions resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. The remaining amount of \$64,394 reported as the net effect of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2021	\$ 27,361
2022	20,690

2023	9,106
2024	7,237
2025	-0-
Thereafter	<u>-0-</u>
Total	\$ 64,394

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

The actuarial assumptions are:

Inflation	2.30% for all plans
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increases	3.30% to 10.30% varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS Non-hazardous

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Nonhazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session which delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

Senate Bill 249 passed during the 2020 legislative session and 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 the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

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

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	25 years, Closed
Payroll Growth Rate	2.00% for CERS non-hazardous
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30%-11.55%, Varies by Service for CERS non-hazardous
Investment Return	6.25% for CERS Non-hazardous

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

Post-retirement mortality (non-disabled): System-specific mortality table on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020.

Post-retirement mortality (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 improvement scale using a base year of 2010.

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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Growth</b>	<b>53.50%</b>	
US Equity	15.75%	4.50%
Non-US Equity	15.75%	5.25%
Private Equity	7.00%	5.15%
Specialty Credit/High Yield	15.00%	3.90%
<b>Liquidity</b>	<b>23.50%</b>	
Core Bonds	20.50%	(.25)%
Cash	3.00%	(.75)%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
<b>Total</b>	<b>100.00%</b>	<b>3.33%</b>
Long Term Inflation Expectation is 2.30%		

*Discount rate* - The projection of cash flows used to determine the discount rate of 5.25% for the KERS Non-hazardous, and 6.25% for KERS Hazardous, CERS Non-hazardous, and CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 2 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination 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 CAFR.

*Sensitivity of the employer's proportionate share of the net pension liability to changes in the discount rate* - The following presents the net pension liability of the System, calculated using the discount rate of 6.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (5.25%) or 1- percentage-point higher (7.25%) than the current rate for non-hazardous:

	1% Decrease <u>5.25%</u>	Current Discount Rate <u>6.25%</u>	1% Increase <u>7.25%</u>
Proportionate share of the net pension liability	\$ 888,075	\$ 720,129	\$ 581,062

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

#### Note 3 - Other Postemployment Benefits Plan (OPEB)

Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

*Plan Description* - The Kentucky Public Pensions Authority (KPPA) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.



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

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Nonhazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session which delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

Senate Bill 249 passed during the 2020 legislative session and 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 the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

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

The actuarial assumptions are:

Inflation	2.30% for all plans
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increases	3.05%, average for non-hazardous
Investment Rate of Return	6.25% Healthcare for non-hazardous
Trend Rates	
Pre - 65	Initial trend starting at 7.00% on 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% on January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

Long-Term Expected Rate of Return - The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Rate of Return</u>
<b>Growth</b>	<b>53.50%</b>	
US Equity	15.75%	4.50%
Non-US Equity	15.75%	5.25%
Private Equity	7.00%	5.15%
Specialty Credit/High Yield	15.00%	3.90%
<b>Liquidity</b>	<b>23.50%</b>	
Core Bonds	20.50%	(.25)%
Cash	3.00%	(.75)%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
<b>Total</b>	<b>100.00%</b>	<b>3.33%</b>
Long Term Inflation Expectation is 2.30%		

**Discount Rate** - The projection of cash flows used to determine the discount rate of 5.43% for KERS Non-hazardous, 5.28% for KERS Hazardous, 5.34% for CERS Non-hazardous, and 5.30% for CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 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 28, 2020. 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 CAFR.

**Use of Estimates in the Preparation of the Schedules** - The preparation of the schedules in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2019:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Period	25 Years, Closed
Payroll Growth Rate	2.00%
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Investment Return	
Pre - 65	Initial trend starting at 7.00% 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% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

**Implicit Subsidy** - KPPA pays fully insured premiums for the Kentucky Health Plan. The premiums 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. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability. The water district's implicit subsidy for the year ended December 31, 2020 was \$5,562.

### Contributions

The Commonwealth is required to contribute at an actuarially determined rate for KERS and SPRS pensions. Participating employers are required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Sections KERS 61.565(3), CERS 78.545(33), and SPRS 16.645(18), normal contribution and past service contribution rates shall be determined by the Board on the basis of the last annual valuation preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget for KERS and SPRS.

For the fiscal years ended June 30, 2020 and 2019, participating employers contributed a percentage of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal year is a percentage of each employee's creditable compensation. Administrative costs of KPPA are financed through employer contributions and investment earnings.

### Contribution Rates and Amounts for CERS Non-Hazardous

Period	Pension	Insurance	Total	Employer		Employee
				Pension	Insurance	
01/01/2020-06/30/2020	19.30%	4.76%	24.06%	\$22,975	\$5,666	\$5,952

07/01/2020-12/31/2020	19.30%	4.76%	24.06%	<u>22,229</u>	<u>5,482</u>	<u>5,759</u>
Totals				\$45,204	\$11,149	\$11,711

Contributions including implicit subsidy \$16,164

For additional information regarding contributions, please refer to the Defined Benefit Pension Plan footnote.

**TIER 1:**

Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. 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.

**TIER 2:**

Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute 6% (Non-Hazardous) or 9% (Hazardous) of their annual creditable compensation. Further, 1% of these contributions are 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 (KAR) 105 KAR 1:420 Employer's administrative duties). These members are classified in the Tier 2 structure of benefits. 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, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

**TIER 3:**

Tier 3 plan members, who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (Non-Hazardous) or 8% (Hazardous) of their annual creditable compensation, and an additional 1% to the health insurance fund (401(h) account), 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) or 7.5% (Hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* - On December 31, 2020, the Water District reported a liability of \$226,643 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019, rolled-forward to June 30, 2020 using generally accepted actuarial principles. The Water District's proportion of the net OPEB liability was determined using the Water District's actual contributions for the year ended June 30, 2020. This method is expected to be reflective of the Water District's long-term contribution effort. For the year ended December 31, 2020, the Water District's proportion was 0.009386% which is equal to its proportion measured as of June 30, 2020.

For the year ended December 31, 2020, the Water District recognized OPEB expense of \$29,427. On December 31, 2020, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual liability experience	\$ 37,867	\$ 37,897
Effects of changes in assumptions	39,423	240
Differences between projected and actual earnings on plan investments	12,158	4,625
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,006	5,625
Contributions subsequent to the measurement date + implicit subsidy	<u>11,044</u>	<u>-0-</u>
Total	\$ 101,498	\$ 48,387

\$11,044 reported of deferred outflows of resources resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020. Other amounts reported as the net effect of deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:



<u>Year Ended December 31,</u>	<u>Amount</u>
2021	\$ 11,155
2022	13,384
2023	9,117
2024	9,149
2025	(738)
Thereafter	<u>-0-</u>
Total	\$ 42,067

*Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate* – The following presents the proportionate share of the net OPEB liability calculated using the single discount rate of 5.34%, as well as what the Water District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (4.34%) or 1% higher (6.34%) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	4.34%	\$ 291,170
Current discount rate	5.34%	\$ 226,643
1% increase	6.34%	\$ 173,645

*Sensitivity of the Water District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following presents the proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1% lower or 1% higher than the current rates:

	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	\$ 175,479
Current healthcare cost trend rate	\$ 226,643
1% increase	\$ 288,733

#### Note 4 – Bonds & Notes Payable

##### *Bonds Payable*

The amount shown in the accompanying financial statements as bonds payable represents the District's future obligation to make payments from future revenues. On December 31, 2020, seven separate bonds had outstanding balances. Details of each of these bonds are summarized as follows:

##### Note A

Lender – Rural Development

Original loan amount - \$238,000

Balance of loan - \$82,000

Rate - 5%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

	<u>Maturities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2021	\$ 10,000	\$ 3,850	\$ 13,850
2022	10,500	3,338	13,838
2023	11,000	2,800	13,800
2024	11,500	2,238	13,738
2025	12,500	1,638	14,138
2026-2027	26,500	1,338	27,838
Total	\$ 82,000	\$ 15,202	\$ 97,202

**Note B**

Lender – Rural Development

Original loan amount - \$194,000

Balance of loan - \$90,000

Rate – 5%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	\$ 7,000	\$ 4,325	\$ 11,325
2022	7,000	3,975	10,975
2023	8,000	3,600	11,600
2024	7,000	3,225	10,225
2025	8,000	2,850	10,850
2026-2030	44,000	8,000	52,000
2031	9,000	225	9,225
Total	\$ 90,000	\$ 26,200	\$ 116,200

**Note C**

Lender – Rural Development

Original loan amount - \$631,000

Balance of loan - \$351,000

Rate – 4.5%

Principal due – January 1

Interest due – January 1 and July 1

Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	\$ 20,000	\$ 15,345	\$ 35,345
2022	21,000	14,423	35,423
2023	22,000	13,455	35,455
2024	23,000	12,443	35,443
2025	24,000	11,385	35,385
2026-2030	140,500	39,049	179,549
2031-2033	100,500	6,851	107,351
Total	\$ 351,000	\$ 112,951	\$ 463,951

**Note D**

Lender – Rural Development

Original loan amount - \$460,000

Balance of loan - \$247,500

Rate – 4.5%

Principal due – January 1

Interest due – January 1 and July 1

Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice

Maturities			
	Principal	Interest	Total Payment
2021	\$ 14,000	\$ 10,823	\$ 24,823
2022	15,000	10,170	25,170
2023	15,500	9,484	24,984
2024	16,500	8,764	25,264
2025	17,000	8,010	25,010
2026-2030	97,500	27,529	125,029
2031-2033	72,000	5,040	77,040
Total	\$ 247,500	\$ 79,820	\$ 327,320

## Note E

Lender – Rural Development

Original loan amount - \$600,000

Balance of loan - \$470,000

Rate – 4.5%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	\$ 12,000	\$ 20,880	\$ 32,880
2022	13,000	20,318	33,318
2023	13,000	19,733	32,733
2024	14,000	19,125	33,125
2025	14,000	18,495	32,495
2026-2030	82,000	81,990	163,990
2030-2034	99,000	65,723	164,723
2035-2039	122,000	41,085	163,085
2040-2043	101,000	11,003	112,003
Total	\$ 470,000	\$ 298,352	\$ 768,352

## Note F

Lender – Rural Development

Original loan amount - \$520,000

Balance of loan - \$512,000

Rate – 2.75%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	\$ 8,000	\$ 13,970	\$ 21,970
2022	8,500	13,743	22,243
2023	8,500	13,509	22,009
2024	9,000	13,269	22,269
2025	9,000	13,021	22,021
2026-2030	49,500	61,153	110,653
2031-2035	56,500	53,893	110,393
2036-2040	64,500	45,588	110,088
2041-2045	74,000	36,053	110,053
2046-2050	85,000	25,163	110,163
2051-2055	97,500	12,616	110,116
2056-2058	42,000	1,155	43,155
Total	\$ 512,000	\$ 303,133	\$ 815,133

**Note G**

Lender – Rural Development

Original loan amount - \$300,000

Balance of loan - \$229,000

Rate – 4.5%

Principle due – January 1

Interest due – January 1 and July 1

Prepayment provision – subject to payment prior to its state maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	\$ 6,500	\$ 10,159	\$ 16,659
2022	6,500	9,866	16,366
2023	7,000	9,563	16,563
2024	7,000	9,248	16,248
2025	7,500	8,921	16,421
2026-2030	43,000	39,105	82,105
2031-2035	53,500	28,226	81,726
2036-2040	67,000	14,783	81,783
2041-2042	31,000	1,418	32,418
Total	\$ 229,000	\$ 131,289	\$ 360,289

**Note H**

Lender – Rural Development

Original loan amount - \$27,000

Balance of loan - \$22,200

Rate – 4.375%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	\$ 500	\$ 960	\$ 1,460
2022	500	938	1,438
2023	500	917	1,417
2024	600	893	1,493
2025	600	866	1,466
2026-2030	3,300	3,918	7,218
2031-2035	4,200	3,098	7,298
2036-2040	5,200	2,069	7,269
2041-2045	6,800	796	7,596
Total	\$ 22,200	\$ 14,455	\$ 36,655

**Notes Payable****Note I**

On October 11, 2019, the District obtained a loan from Whitaker Bank. \$25,499 was financed and used to purchase a 2019 Chevrolet Silverado. Interest rate is 3.25% and the term of the loan is 24 months. Loan number is 4500639350. Balance at year end was \$9,797.

Maturities:

Maturities			
	Principal	Interest	Total Payment
2021	\$ 5,294	\$ 245	\$ 5,539
2022	4,503	172	4,675
Total	\$ 9,797	\$ 417	\$ 10,214

**Note J**

October 11, 2019, the District obtained a loan from Whitaker Bank. \$25,499 was financed and used to purchase a 2019 Chevrolet Silverado. Interest rate is 3.25% and the term of the loan is 24 months. Loan number is 4500639351. Balance at year end was \$9,797.

**Maturities:**

Maturities			
	Principal	Interest	Total Payment
2021	\$ 5,294	\$ 245	\$ 5,539
2022	4,503	172	4,675
Total	\$ 9,797	\$ 417	\$ 10,214

**Note K**

On October 11, 2019, the District obtained a loan from Whitaker Bank. \$25,799 was financed and used to purchase a 2019 Chevrolet Silverado. Interest rate is 3.25% and the term of the loan is 24 months. Loan number is 4500639352. Balance at year end was \$9,957

**Maturities:**

Maturities			
	Principal	Interest	Total Payment
2021	\$ 5,366	\$ 248	\$ 5,614
2022	4,591	70	4,661
Total	\$ 9,957	\$ 318	\$ 10,275

**Bonds and Notes Payable**

A summary of all bonds and notes outstanding follows:

	Outstanding 1/1/2020	Issued	Retired	Outstanding 12/31/2020	Due Within One Year
<b>Bonds Payable</b>					
Rural Development	\$ 2,079,700	\$ -	\$ 63,500	\$ 2,016,200	\$ 78,000
<b>Notes Payable</b>					
Whitaker Bank 4500639350	14,919	-	5,120	9,799	5,294
Whitaker Bank 4500639351	14,919	-	5,120	9,799	5,294
Whitaker Bank 4500639352	15,138	-	5,181	9,957	5,366
Total bonds payable	2,079,700	-	63,500	2,016,200	78,000
Total notes payable	44,976	-	15,421	29,555	15,954
Total bonds/notes payable	\$ 2,124,676	\$ -	\$ 78,921	\$ 2,045,755	\$ 93,954

**Note 5 - Leave Policies****Annual and Sick Leave**

The District no longer requires that sick and annual leave be paid annually. No additional accrued leave days are permitted. District employees accrue sick leave at the rate of one day per month. They accrue annual leave at the rate of five days per year for less than three years employment and ten days for employment exceeding three years and fifteen days for employment exceeding ten years. No leave may be collected on termination.

**Note 6 - Changes in Capital Assets**

The following is a summary of changes in the capital assets for the year:

	Balance 1/1/2020	Transfers/ Additions	Deletions	Balance 12/31/2020
Land, non-depreciable	\$ 16,888			\$ 16,888
Plant, equipment & lines	10,438,141	-		10,438,141
Construction in process	-	-	-	-
Total	\$ 10,455,029	\$ -	\$ -	\$ 10,455,029
Accumulated depreciation	\$ 4,273,812	\$ 293,331	\$ -	\$ 4,567,143
Capital assets, net of accumulated depreciation	\$ 6,181,217			\$ 5,887,886

**Note 7 - Revenue Bonds**

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account. The District also must transfer \$456 per month into a depreciation fund.

**Note 8 - Restricted Cash**

Restricted cash is composed of the following:

Deposit account	\$ 93,980
Depreciation reserve fund	73,754
Debt reserve fund	163,243
Short-lived Assets	61
	\$ 331,038

**Note 9 – Contingencies**

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2020. Areas of noncompliance, if any, as a result of examinations would be included as a part of the "Findings and Questioned Costs" section of this report.

**Note 10 – Risk Management**

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

**Note 11 – Subsequent Events**

The District has evaluated subsequent events through June 03, 2021, and that is the date that the financial statements were available to be issued.

**Note 12 - Noncurrent Liabilities**

Description	Balance,			Balance,		
	01/01/2020	Additions	Subtractions	12/31/2020	Current Portion	Noncurrent Portion
Bonds payable	\$ 2,079,700	\$ -	\$ 76,000	\$ 2,003,700	\$ 78,000	\$ 1,925,700
Notes payable	44,975	-	15,424	29,551	15,954	13,597
Net pension liability	652,596	67,533	-	720,129	-	720,129
Net OPEB liability	156,018	70,625	-	226,643	-	226,643
	\$ 2,933,289	\$ 138,158	\$ 91,424	\$ 2,980,023	\$ 93,954	\$ 2,886,069

REQUIRED SUPPLEMENTARY INFORMATION

POWELL'S VALLEY WATER DISTRICT  
Schedule of Employer's Proportionate Share of Net Pension Liability  
December 31, 2020

	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
Proportion of the net pension liability (asset)	0.009680%	0.009722%	0.009490%	0.009279%	0.009389%
Proportionate share of the net pension liability (asset)	\$ 476,826	\$ 569,059	\$ 577,970	\$ 652,596	\$ 720,129
Covered employee payroll	\$ 236,955	\$ 236,700	\$ 235,201	\$ 234,052	\$ 240,498
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	201.23%	240.41%	245.73%	278.83%	299.43%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	53.32%	53.54%	50.45%	47.81%
	<u>6/30/2015</u>				
Proportion of the net pension liability (asset)	0.009773%				
Proportionate share of the net pension liability (asset)	\$ 420,202				
Covered employee payroll	\$ 227,616				
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	184.61%				
Plan fiduciary net position as a percentage of the total pension liability	59.97%				



POWELL'S VALLEY WATER DISTRICT  
Schedule of Employer's Contributions - Net Pension Liability  
December 31, 2020

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	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2020</u>
Contractually required contribution	\$ 31,303	\$ 33,054	\$ 36,188	\$ 42,161	\$ 45,204
Contributions in relation to the contractually required contribution	<u>31,303</u>	<u>33,054</u>	<u>36,188</u>	<u>42,161</u>	<u>45,204</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 236,955</u>	<u>\$ 232,462</u>	<u>\$ 235,662</u>	<u>\$ 236,871</u>	<u>\$ 234,220</u>
Contributions as a percentage of covered employee payroll	13.21%	14.22%	15.36%	17.80%	19.30%
	<u>12/31/2015</u>				
Contractually required contribution	\$ 28,886				
Contributions in relation to the contractually required contribution	<u>28,886</u>				
Contribution deficiency (excess)	<u>\$ -</u>				
Covered employee payroll	<u>\$ 229,569</u>				
Contributions as a percentage of covered employee payroll	12.58%				

POWELL'S VALLEY WATER DISTRICT  
 Schedule of Employer's Proportionate Share of Net OPEB Liability  
 December 31, 2020

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	6/30/2017	6/30/2018	6/30/2019	6/30/2020
Proportion of net OPEB liability (asset)	0.009722%	0.009490%	0.009279%	0.009386%
Proportionate share of net OPEB liability (asset)	\$ 195,445	\$ 168,475	\$ 156,018	\$ 226,643
Covered employee payroll	\$ 236,700	\$ 235,201	\$ 234,052	\$ 24,498
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	82.57%	71.63%	66.66%	925.15%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	51.67%

POWELL'S VALLEY WATER DISTRICT  
Schedule of Employer's Contributions - Net OPEB Liability  
December 31, 2020

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	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2020</u>
Statutorily required contribution	\$ 10,961	\$ 11,740	\$ 11,852	\$ 11,148
Contributions in relation to the statutorily required contribution	<u>10,961</u>	<u>11,740</u>	<u>11,852</u>	<u>11,148</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 232,462</u>	<u>\$ 235,662</u>	<u>\$ 236,871</u>	<u>\$ 234,220</u>
Contributions as a percentage of covered-employee payroll	4.72%	4.98%	5.00%	4.76%

Powell's Valley Water District  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
For the year ended December 31, 2020

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County Employee Retirement System – Pension & Insurance Funds

*Changes of benefit terms*

During the **2020** legislative session, Senate Bill 249 passed and 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 the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

During the **2019** Special Legislative Session, House Bill 1 passed allowing certain employers in the KERS Nonhazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session which delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's elections are unknown at this time, no adjustment to the Total Pension Liability was made to reflect this legislation.

During the **2019** legislative session, House Bill 484 was enacted, which updated the benefit provisions for active members who die in the line of duty.

- Pension – 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.
- Insurance – 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.

*Changes in assumptions*

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2020**:

- The rate of inflation, payroll growth rate, investment rate of return, healthcare trend rate assumptions and mortality tables remain the same as those previously adopted.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2019**:

- The rate of inflation, payroll growth rate, salary increases, and investment rate of return assumptions remain the same as those adopted for the June 30, 2017 valuation.
- The salary increase assumption was increased from an average of 3.05% to a range that varies by service of 3.30% - 10.30%.
- The healthcare trend rates used were updated to the following:
  - Pre-65 – Initial trend starting at 7.00% at January 01, 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 01, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
- The mortality tables used were updated to the following:

Active members – PUB 2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Healthy retired members – System specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019.

Disabled retire members – 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 scale using a base year of 2010.

(Changes in Assumptions continued)

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2017**:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The payroll growth rate was reduced from 4.00% to 2.00%.
- The salary increase assumption was reduced from 4.00% average to 3.05% average.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2015**:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 4.50% to 4.00%.
- The payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB 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 one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

SUPPLEMENTARY INFORMATION

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Joel D. Lane, CPA

American Institute of CPAs  
Kentucky Society of CPAs

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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*

Board of Commissioners  
Powell's Valley Water District  
Clay City, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Powell's Valley Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Powell's Valley Water District's basic financial statements, and have issued our report thereon dated June 03, 2021.

## **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **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.

*John T. Lane & Associates LLC*

Mount Sterling, Kentucky

June 03, 2021



POWELL'S VALLEY WATER DISTRICT  
Comparative Statement of Revenues and Expenses  
for the years ended December 31, 2019 and 2020

	<u>2019</u>	<u>2020</u>
Revenues		
User fees	\$ 1,346,935	\$ 1,350,776
Other water revenue	<u>48,355</u>	<u>19,323</u>
Total Revenues	<u>1,395,290</u>	<u>1,370,099</u>
Expenses		
Water purchased	389,474	409,205
Salaries	247,666	250,183
Office	14,919	15,518
Insurance	29,709	39,936
Taxes	21,555	21,171
Outside services	58,834	53,140
Employee benefits	246,014	280,499
Miscellaneous	3,372	4,067
Depreciation	293,515	293,331
Supplies	132,550	151,850
Utilities	78,246	76,516
Vehicle expense	<u>19,828</u>	<u>17,071</u>
Total Operating Expenses	<u>1,535,682</u>	<u>1,612,487</u>
Operating Income (Loss)	<u>(140,392)</u>	<u>(242,388)</u>
Nonoperating Revenues (Expenses)		
Miscellaneous income	4,323	5,819
Interest income	976	997
Interest expense	<u>(92,593)</u>	<u>(74,882)</u>
Net Nonoperating Revenues (Expenses)	<u>(87,294)</u>	<u>(68,066)</u>
Change in Net Position	<u>\$ (227,686)</u>	<u>\$ (310,454)</u>

POWELL'S VALLEY WATER DISTRICT  
Statement of Revenues and Expenses  
Water and Sewer  
for the year ended December 31, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Revenues			
User fees	\$ 1,256,314	\$ 94,462	\$ 1,350,776
Other water revenue	<u>19,323</u>	<u>-</u>	<u>19,323</u>
Total Revenues	<u>1,275,637</u>	<u>94,462</u>	<u>1,370,099</u>
Expenses			
Water purchased	409,205	-	409,205
Salaries	250,183	-	250,183
Office	14,933	585	15,518
Insurance	39,936	-	39,936
Taxes	21,171	-	21,171
Outside services	47,180	5,960	53,140
Employee benefits	280,499	-	280,499
Miscellaneous	4,067	-	4,067
Depreciation	273,721	19,610	293,331
Supplies	94,778	57,072	151,850
Utilities	57,724	18,792	76,516
Vehicle expense	<u>17,071</u>	<u>-</u>	<u>17,071</u>
Total Operating Expenses	<u>1,510,468</u>	<u>102,019</u>	<u>1,612,487</u>
Operating Income (Loss)	<u>(234,831)</u>	<u>(7,557)</u>	<u>(242,388)</u>
Nonoperating Revenues (Expenses)			
Miscellaneous income	5,819	-	5,819
Interest income	953	44	997
Interest expense	<u>(63,606)</u>	<u>(11,276)</u>	<u>(74,882)</u>
Net Nonoperating Revenues (Expenses)	<u>(56,834)</u>	<u>(11,232)</u>	<u>(68,066)</u>
Change in Net Position	<u>\$ (291,665)</u>	<u>\$ (18,789)</u>	<u>\$ (310,454)</u>