

HENDERSON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

HENDERSON COUNTY WATER DISTRICT
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

The Henderson County Water District provides water services for the residents of Henderson County and Webster County Kentucky who live outside the incorporated limits of the City of Henderson, Kentucky. The following narrative provides an overview of the financial performance of the Henderson County Water District for the years ended December 31, 2019 and 2018.

Overview of the Financial Statements:

This financial report consists of four parts: 1) Management's Discussion and Analysis, 2) Financial Statements, 3) Required Supplemental Information, and 4) Supplemental Information. Included in the financial statements are notes which provide additional detail supporting amounts reported therein. The financial statements of the Henderson County Water District report information using accounting principles similar to those of private sector companies.

The statement of net position, the successor to the balance sheet, includes all of the Henderson County Water District's assets and liabilities and provides information about their nature. It also provides a foundation for evaluating the financial strength of the District.

All of the revenues and expenses are accounted for on the statement of revenues, expenses, and changes in net position. This statement measures the results of the District's operations over the past year. It is used by management and others to evaluate whether the District was successful in recovering all of its costs through charges for sale of water and generated a profit.

The last statement is the statement of cash flows. This statement provides information regarding the District's cash receipts, payments, investing (capital expenditures), and financing activities. The sources and uses of cash are summarized in this report which also reconciles the changes in cash balances from the beginning of the year to the end.

Financial Highlights:

The Henderson County Water District's total assets decreased by \$222,675 from \$16,163,112 in 2018 to \$15,940,437 in 2019, primarily due to decreases in inventory and capital assets.

Operating revenues for 2019 increased by \$3,550, from \$3,189,446 in 2018 to \$3,192,996 in 2019, primarily due to an increase in penalties and miscellaneous billings.

Operating expenses decreased by \$91,275, or 3%, from \$3,119,141 in 2018 to \$3,027,866 in 2019, primarily attributable to the decrease in purchased water and administrative expenses.

Operating income increased by \$94,825, or 135%, from \$70,305 in 2018 to \$165,130 in 2019, primarily due to decreased costs.

Condensed Financial Information:

A summary of condensed financial information is as follows:

	December 31, 2019	December 31, 2018	Change	Percentage
Current assets	\$ 1,649,406	\$ 1,474,927	\$ 174,479	12%
Restricted assets	927,687	1,056,122	(128,435)	-12%
Noncurrent assets	73,590	68,280	5,310	8%
Capital assets	12,854,028	13,129,233	(275,205)	-2%
Deferred outflows of resources	435,726	434,550	1,176	0%
Total assets and deferred outflows	<u>\$ 15,940,437</u>	<u>\$ 16,163,112</u>	<u>\$ (222,675)</u>	<u>-1%</u>
Current liabilities	\$ 661,723	\$ 636,461	25,262	4%
Long-term liabilities	5,428,095	5,791,049	(362,954)	-6%
Deferred inflows of resources	154,193	144,155	10,038	7%
Total liabilities and deferred inflows	<u>6,244,011</u>	<u>6,571,665</u>	<u>(327,654)</u>	<u>-5%</u>
Net position				
Invested in capital assets	8,499,560	8,391,358	108,202	1%
Restricted - debt service	927,687	1,056,122	(128,435)	-12%
Unrestricted	269,179	143,967	125,212	87%
Total net position	<u>9,696,426</u>	<u>9,591,447</u>	<u>104,979</u>	<u>1%</u>
Total liabilities and net position	<u>\$ 15,940,437</u>	<u>\$ 16,163,112</u>	<u>\$ (222,675)</u>	<u>-1%</u>

HENDERSON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

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Total net position increased by \$111,839, largely due to the decrease in operating expenses.

	December 31, 2019	December 31, 2018	Change	Percentage
Operating revenues	\$ 3,192,996	\$ 3,189,446	\$ 3,550	0%
Operating expenses	3,027,866	3,119,141	91,275	-3%
Operating income	165,130	70,305	94,825	135%
Non-operating revenues, net	(86,916)	(111,598)	24,682	22%
Capital contributions	26,765	34,433	(7,668)	-22%
Change in net position	\$ 104,979	\$ (6,860)	\$ 111,839	1630%

Operating income is more than prior year due to the decrease in operating expenses. Operating expenses decreased primarily due to a decrease in water purchased due to significant overflows and line breaks and leaks in the prior year that did not occur in 2019 as well as less consumption and a decrease in administrative expenses. Capital contributions are less than prior year because of money received from the fiscal court and individuals in 2018 for shared costs of water main installation.

Statement of Cash Flows:

The following is a summary of cash flow activity for the fiscal years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018	Change	Percentage
Net cash provided (used) by:				
Operating activities	\$ 666,912	\$ 531,999	\$ 134,913	25%
Non-capital financing	16,171	13,810	2,361	17%
Capital and related financing	(643,026)	(872,746)	229,720	26%
Investing activities	19,752	28,851	(9,099)	-32%
Net change in cash and cash equivalents	\$ 59,809	\$ (298,086)	\$ 357,895	120%

Cash flows from operating activities were more by \$134,913 due primarily to decreased expenses such as water purchased and administrative expenses. Cash used by capital and related financing activities increased by \$229,720 due to higher debt principal payments in the current year and purchase of capital assets. Cash flows from investing activities decreased by \$9,099 as a result of renewal of CD's.

Capital Assets:

The vast majority of the assets of the Henderson County Water District are invested in the system infrastructure, similar to most utility operations. To protect this investment, the District is diligent in continually monitoring the condition of the system and performing maintenance to ensure it remains in a state of good repair. Management monitors its financial performance regularly to ensure a reasonable return on investment is received so that funds are available to provide for capital expenditures necessary to meet these objectives. The District expended \$155,682 on capital assets during 2019, and \$401,143 during 2018.

Long-term Debt:

As of December 31, 2019, the Henderson County Water District has \$3,961,707 in long-term debt outstanding, consisting of an Old National Bank Loan in the amount of \$189,387, Revenue Bond Series 2013 and 2013A in the amount of \$1,861,500, and Revenue Bond Series 2016 in the amount of \$1,910,820. Revenues of the District are pledged to secure these obligations.

Economic Factors:

Water sales for the fiscal year ending December 31, 2019 are estimated by management to remain at relatively similar levels of previous years, and plan to pass through a decrease in rate to customers in 2020.

Contact Information:

The financial statements are designed to provide our citizens, customers, and creditors with a general overview of the Henderson County Water District's results of operations. Additional information can be obtained by contacting Mr. Pete Conrad, Superintendent of the Henderson County Water District at 655 South Main Street, P.O. Box 655, Henderson, Kentucky 42420, or telephonically at 270-826-9802.

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Henderson County Water District
Henderson, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Henderson County Water District as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Henderson 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Henderson County Water District, as of December 31, 2019, and the respective changes in financial position and 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-2, the schedule of District's proportionate share of net pension liability to the county employee retirement system on page 26, the schedule of District's contributions to Kentucky Retirement System on page 27, the schedule of District's proportionate share of net OPEB liability to the non-hazardous medical insurance plan on page 28, and the schedule of District's contributions to medical insurance plan of Kentucky Retirement System on page 29 be presented to supplement the basic financial statements. Such information, although not a

part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Henderson County Water District's basic financial statements. The schedule of revenues, expenses and changes in net position – budget and actual, and the schedule of system maintenance, customer accounts and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of revenues, expenses and changes in net position – budget and actual, and the schedule of system maintenance, customer accounts and administrative expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues, expenses and changes in net position – budget and actual, and the schedule of system maintenance, customer accounts and administrative expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2020, on our consideration of the Henderson 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 Henderson County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Henderson County Water District's internal control over financial reporting and compliance.



Kemper CPA Group LLP
Certified Public Accountants and Consultants

Henderson, KY
March 20, 2020

HENDERSON COUNTY WATER DISTRICTStatements of Net Position
December 31, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 648,948	\$ 618,546
Investments, at cost	533,494	355,899
Receivables, net	359,150	355,836
Interest receivable	4,520	4,520
Inventories	78,030	115,593
Prepaid expenses	25,264	24,533
Total current assets	<u>1,649,406</u>	<u>1,474,927</u>
Utility, plant, equipment and construction in progress	<u>12,854,028</u>	<u>13,129,233</u>
Other non-current assets:		
Restricted cash and cash equivalents	562,591	533,184
Restricted investments, at cost	365,096	522,938
Other investments, at cost	73,590	68,280
Total other non-current assets	<u>1,001,277</u>	<u>1,124,402</u>
Total assets	<u>15,504,711</u>	<u>15,728,562</u>
Deferred outflows of resources	<u>435,726</u>	<u>434,550</u>
Total assets and deferred outflows	<u>15,940,437</u>	<u>16,163,112</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	179,172	161,706
Interest payable	59,995	70,584
Other liabilities	29,795	27,999
Bonds and notes payable, net	392,761	376,172
Total current liabilities	<u>661,723</u>	<u>636,461</u>
Non-current liabilities:		
Customer security deposits	121,120	104,950
Net pension liability	1,345,268	1,324,396
Bonds and notes payable, net	3,961,707	4,361,703
Total non-current liabilities	<u>5,428,095</u>	<u>5,791,049</u>
Total liabilities	<u>6,089,818</u>	<u>6,427,510</u>
Deferred inflows of resources	<u>154,193</u>	<u>144,155</u>
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	8,499,560	8,391,358
Restricted for debt service	927,687	1,056,122
Unrestricted	269,179	143,967
Total net position	<u>\$ 9,696,426</u>	<u>\$ 9,591,447</u>

HENDERSON COUNTY WATER DISTRICT

Statements of Cash Flows
December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 3,076,752	\$ 3,083,513
Cash payments to suppliers for goods and services	(1,823,879)	(1,960,659)
Cash payments to employees for services	(698,891)	(695,594)
Other operating revenues	112,930	104,739
Net cash provided by operating activities	<u>666,912</u>	<u>531,999</u>
Cash flows from noncapital financing activities:		
Increase (decrease) in customer deposits	16,171	13,810
Net cash provided by noncapital financing activities	<u>16,171</u>	<u>13,810</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(155,682)	(401,143)
Capital contributions	26,765	34,433
Principal paid on revenue bond maturities and other capital notes	(376,172)	(363,598)
Interest paid on revenue bonds and other capital notes	(137,937)	(142,438)
Net cash (used) by capital and related financing activities	<u>(643,026)</u>	<u>(872,746)</u>
Cash flows from investing activities:		
(Increase) decrease in investment securities	(25,063)	(9,947)
Interest income	44,815	38,798
Net cash provided by investing activities	<u>19,752</u>	<u>28,851</u>
Net increase (decrease) in cash and cash equivalents	59,809	(298,086)
Cash and cash equivalents, beginning of year	<u>1,151,730</u>	<u>1,449,816</u>
Cash and cash equivalents, end of year	<u>\$ 1,211,539</u>	<u>\$ 1,151,730</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 165,130	\$ 70,305
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	430,888	414,176
Pension expense	119,607	200,152
(Increase) decrease in accounts receivable	(3,314)	(1,194)
(Increase) decrease in inventories	37,563	(29,106)
(Increase) decrease in prepaid expenses	(731)	(3,796)
(Increase) decrease in deferred outflows	(101,493)	(90,344)
Increase (decrease) in accounts payable	17,466	(19,810)
Increase (decrease) in accrued liabilities	1,796	(8,384)
Net cash provided by operating activities	<u>\$ 666,912</u>	<u>\$ 531,999</u>
Summary of cash and cash equivalents:		
Unrestricted cash equivalents	\$ 648,948	\$ 618,546
Restricted cash equivalents	562,591	533,184
Total cash and cash equivalents	<u>\$ 1,211,539</u>	<u>\$ 1,151,730</u>

HENDERSON COUNTY WATER DISTRICT
Statements of Revenues, Expenses and Changes in Fund Net Position
December 31, 2019 and 2018

	2019	2018
Operating revenues:		
Water	\$ 3,080,066	\$ 3,084,707
Penalties and sundry	112,930	104,739
Total operating revenues	<u>3,192,996</u>	<u>3,189,446</u>
Operating expenses:		
Purchased water	1,447,602	1,491,739
Pumping utilities	58,451	58,726
Maintenance of system	359,547	354,357
Vehicle and equipment	37,825	41,342
Customer accounts	130,642	119,557
Administration	562,911	639,244
Depreciation	430,888	414,176
Total operating expenses	<u>3,027,866</u>	<u>3,119,141</u>
Operating income	<u>165,130</u>	<u>70,305</u>
Non-operating revenues (expenses):		
Investment income	50,125	35,226
Interest expense	(137,041)	(146,824)
Total non-operating revenues (expenses)	<u>(86,916)</u>	<u>(111,598)</u>
Income (loss) before contributions	78,214	(41,293)
Capital contributions	<u>26,765</u>	<u>34,433</u>
Change in net position	104,979	(6,860)
Net position, beginning of year, as previously stated	<u>9,591,447</u>	<u>9,980,689</u>
Effect of adoption of GASB Statement No. 75	-	(382,382)
Net position, end of year	<u><u>\$ 9,696,426</u></u>	<u><u>\$ 9,591,447</u></u>

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Henderson County Water District ("Water District") was created by the fiscal court of Henderson County under the provisions authorized by Chapter 74 of the Kentucky Revised Statutes. The accounting and reporting framework and the more significant accounting principles are discussed in subsequent subsections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Henderson County Water District's financial activities for the year ended December 31, 2019.

A. Financial Reporting Entity

The Henderson County Water District's purpose is to construct, operate and maintain water service facilities and supply water to Henderson and Webster counties. It is legally separate from the Counties of Henderson and Webster, but its governing body is appointed by the Henderson County and Webster County Fiscal Courts.

The financial statements of the Henderson County Water District comprise a single business-type activity generally financed in whole or in part with fees charged to external customers. In evaluating how to define the Water District for financial reporting purposes, management has considered any potential component units, based upon the Water District's ability to exercise significant oversight responsibility. Oversight responsibility was determined on the basis of the Water District's ability to significantly influence operations, select the governing body, and participate in fiscal management and the scope of public service. Based upon the application of these criteria, no potential component units were noted.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned, including unbilled water services which are accrued. Expenses are recorded at the time liabilities are incurred.

The financial statements are prepared on the basis of Governmental Accounting Standards Board (GASB), Statement Number 34, Basic Financial Statements, Management Discussion and Analysis for State and Local Governments and related standards.

The Henderson County Water District is accounted for as an enterprise fund. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, and GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, the Water District applies all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Charges for services include revenues based on exchange or exchange-like transactions, namely water and sewer use. Program-specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

C. Inventories

Inventories are carried at the lower of cost (primarily first-in, first-out) or market.

D. Cash

The Water District reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

E. Investments

KRS 66.480 permits the Commission to invest in U.S. Treasury obligations, U.S. Agency obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit, savings and loan deposits, and the Commonwealth of Kentucky investment pool. Investments are recorded at fair market value based on quoted market prices. Any gains or losses are reflected in the statement of revenues, expenses and changes in net position, in accordance with GASB No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

F. Restricted Assets

Restricted assets are cash and cash equivalents, U.S. Treasury obligations and interest receivables whose use is limited by legal requirements. Restricted assets represent amounts required by debt covenants to be segregated for debt service reserves and future debt payments and accrued interest on long-term debt obligations.

G. Receivables

All receivables are reported net of estimated uncollectible amounts.

H. Donated Lines

From time to time prospective users have constructed and paid for line extensions and donated these additions to the Water District. These additions are recorded at cost invoiced to the user and are depreciated at rates based on their estimated useful life. Such additions are recorded as capital contributions.

I. Capital Assets, Depreciation, and Amortization

The Water District's property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the basic financial statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost

HENDERSON COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The Public Service Commission has approved an upper limit of \$5,000 below which the cost of an item can be expensed. The District uses a capitalization threshold of \$500.

Estimated useful lives for depreciable assets are as follows:

Buildings	10-50
Distribution systems	15-62.5
Machinery and equipment	5-10
Office equipment and fixtures	5-10

J. Tap Fees

Tap fees collected from new customers are recorded as capital contributions. The cost of installing the service lines and setting the water meters are capitalized and depreciated over their estimated useful lives.

K. Compensated Absences

Accumulated unpaid vacation amounts are reported as "Other liabilities" in the basic financial statements. The accrued compensated balance at December 31, 2019 and 2018 was \$12,409 and \$11,842, respectively.

L. Net Position

Net position presents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the statement of net position. Proprietary fund net position is divided into three components:

Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted net position - consist of net position that are restricted by the Water District's creditors (for example through debt covenants), by state enabling legislation, by grantors (both federal and state), and by other contributors.

Unrestricted - all other net position are reported in this category.

M. Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Water District's policy is to apply the expense toward restricted resources and then toward unrestricted resources.

NOTE 2 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The allowance for uncollectible accounts receivable at December 31, 2019 and 2018 was \$2,430 and \$16,525, respectively.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Water District's deposits may not be returned or the Water District will not be able to recover collateral securities in the possession of an outside party. At December 31, 2019, the carrying amount of the Water District's deposits, including certificates of deposit, was \$2,183,520. Of the total bank balances (including certificates of deposit), \$500,000 was covered by Federal Depository Insurance. As of December 31, 2019, the District's demand and time deposits were fully secured by federal depository insurance or by pledged collateral held by the custodial institutions.

Kentucky Revised Statutes authorize governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associates insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

NOTE 4 – INVESTMENTS

Investments stated at cost consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Current:		
Certificates of deposit	\$ 533,494	\$ 355,899
Noncurrent:		
Certificates of deposit, restricted	365,096	522,938
Certificates of deposit, unrestricted	<u>73,590</u>	<u>68,280</u>
	<u>\$ 972,180</u>	<u>\$ 947,117</u>

NOTE 5 - RISK MANAGEMENT

The Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water District purchases commercial insurance for all risks of loss. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 7 - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the years ended December 31, 2019 and 2018:

	December 31, 2019			
	Beginning Balance	Additions	Payments	Ending Balance
Revenue bond series 2013	\$ 1,630,000	-	\$ 23,500	\$ 1,606,500
Revenue bond series 2013 A	288,000	-	4,500	283,500
Revenue bond series 2016 B	2,510,000	-	315,000	2,195,000
Old National Bank note	256,820	-	33,172	223,648
	4,684,820	-	376,172	4,308,648
Add: unamortized premiums	53,055	-	7,235	45,820
Bonds/notes payable @ 12/31/19	\$ 4,737,875	-	\$ 383,407	\$ 4,354,468

	December 31, 2018			
	Beginning Balance	Additions	Payments	Ending Balance
Revenue bond series 2013	\$ 1,652,500	-	\$ 22,500	\$ 1,630,000
Revenue bond series 2013 A	292,000	-	4,000	288,000
Revenue bond series 2016 B	2,815,000	-	305,000	2,510,000
Old National Bank note	288,918	-	32,098	256,820
	5,048,418	-	363,598	4,684,820
Add: unamortized premiums	60,290	-	7,235	53,055
Bonds/notes payable @ 12/31/18	\$ 5,108,708	-	\$ 370,833	\$ 4,737,875

On May 12, 2016, the Henderson County Water District issued \$3,080,000 Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds Series 2016 B, interest ranging from 2.25% to 3.25%, to advance refund outstanding 2006 A Water Revenue Bonds and with an outstanding balance of \$3,205,000. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the 2006 A series bond of \$116,209. This difference, reported in the accompanying financial statements as a deferred outflow of resources, will be charged to operations (included in "interest expense") through the year using the straight-line method.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 6 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2019 and 2018:

	December 31, 2019			Ending Balance
	Beginning Balance	Increases	Decreases	
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 272,181	\$ -	\$ -	\$ 272,181
Construction in progress	38,000	67,471	-	105,471
Capital assets, being depreciated:				
Distribution systems	18,719,632	82,230	-	18,801,862
Buildings	1,063,935	-	-	1,063,935
Equipment	822,855	5,982	2,975	825,862
Total capital assets	20,916,603	155,683	2,975	21,069,311
Less: accumulated depreciation				
Distribution systems	6,722,884	318,869	-	7,041,753
Buildings	520,742	45,234	-	565,976
Equipment	543,744	66,785	2,975	607,554
Total accumulated depreciation	7,787,370	430,888	2,975	8,215,283
Capital assets, net	\$ 13,129,233	\$ (275,205)	\$ -	\$12,854,028

	December 31, 2018			Ending Balance
	Beginning Balance	Increases	Decreases	
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 272,181	\$ -	\$ -	\$ 272,181
Construction in progress	-	38,000	-	38,000
Capital assets, being depreciated:				
Distribution systems	18,550,179	169,453	-	18,719,632
Buildings	1,053,449	10,486	-	1,063,935
Equipment	648,586	174,269	-	822,855
Total capital assets	20,524,395	392,208	-	20,916,603
Less: accumulated depreciation				
Distribution systems	6,404,297	318,587	-	6,722,884
Buildings	475,820	44,922	-	520,742
Equipment	493,077	50,667	-	543,744
Total accumulated depreciation	7,373,194	414,176	-	7,787,370
Capital assets, net	\$ 13,151,201	\$ (21,968)	\$ -	\$13,129,233

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 7 - LONG-TERM DEBT, CONTINUED

Bonds and notes payable at December 31, 2019 and 2018 are comprised of the following:

	<u>2019</u>	<u>2018</u>
<u>Notes Payable:</u>		
Note payable to Old National Bank, dated December 2, 2015, due in monthly installments of \$3,428 including interest at 3.25%, secured by a pledged of a system revenues	\$ 223,648	\$ 256,820
<u>Revenue Bonds:</u>		
\$3,080,000 Public Projects Water Refunding Revenue Bonds dated May 12, 2016 due in annual installments of \$265,000 to \$285,000 through January 1, 2026, interest payable semiannually on February 1 and August 1, with a rate of 3.25%	2,195,000	2,510,000
Add: Unamortized bond premium	45,820	53,055
\$1,695,000 Waterworks Revenue Bonds, Series 2013 dated July 25, 2012, due in annual installments of \$21,000 and \$79,500 through January 1, 2052, interest payable semiannually on January 1 and July 1, with a rate of 3.75%	1,606,500	1,630,000
\$300,000 Waterworks Revenue Bonds, Series 2013A dated July 25, 2012, due in annual installments of \$4,000 to \$13,500 through January 1, 2053, interest payable semiannually on January 1 and July 1, with a rate of 3.5%	283,500	288,000
Total bonds and notes payable	4,354,468	4,737,875
Less: current portion	392,761	376,172
Long-term portion	<u>\$ 3,961,707</u>	<u>\$ 4,361,703</u>

The annual requirements to amortize all bonds/notes outstanding as of December 31, 2019, including interest payments are as follows:

<u>Year ending December 31</u>	<u>Revenue Bonds/Notes</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 392,761	\$ 117,617	\$ 510,378
2021	404,928	107,593	512,521
2022	412,613	97,361	509,974
2023	419,837	87,902	507,739
2024	342,097	77,819	419,916
2025-2029	785,412	300,680	1,086,092
2030-2034	222,500	256,453	478,953
2035-2039	266,500	208,874	475,374
2040-2044	321,000	151,706	472,706
2045-2049	384,000	83,149	467,149
2050 and thereafter	357,000	11,514	368,514
	<u>\$ 4,308,648</u>	<u>\$ 1,500,668</u>	<u>\$ 5,809,316</u>

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 7 - LONG-TERM DEBT, CONTINUED

The bond indenture agreements include certain stipulations and restrictive covenants. The Water District is in compliance with all significant limitations and restrictions.

NOTE 8 - PENSION PLAN

A. Plan Description

The District contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems (KRS). CERS 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, cost-of-living adjustments (COLA) 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 five percent in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

B. Funding Policy

For the fiscal years ended June 30, 2019, 2018, and 2017, plan members were required to contribute 5% of their annual creditable compensation and the District was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), 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 subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2019, 2018 and 2017, participating employers contributed 21.48%, 19.18%, and 18.68% for CERS non-hazardous of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2019 and 2018, were 21.48% and 19.18% for CERS non-hazardous. Administrative costs of KRS are financed through employer contributions and investments earnings. The District's contributions to CERS for the fiscal years ending December 31, 2019, 2018 and 2017 were \$79,200, \$90,344 and \$75,862, respectively, equal to the required contributions for each year.

Plan members who began participating on, or after September 1, 2008, were required to contribute a total of 6% 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 Administration Regulation 105 KAR 1:420E). Interest is paid each June 30 on member's accounts at a rate of 2.5%. If a member terminates employment and applies to take 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.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 8 - PENSION PLAN, CONTINUED**C. Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

At December 31, 2019, the District reported a liability of \$1,041,625 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 KRS members, actuarially determined. At June 30, 2018, the District's proportion was 0.017103% for non-hazardous which was an increase of 0.000261% from its proportion measured as of June 30, 2017. For the year ended December 31, 2019 the District recognized pension expense of \$165,472. At December 31, 2019 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 33,975	\$ 15,247
Changes in assumptions	101,797	-
Net difference between projected and actual investment earnings on pension plan investments	48,436	60,926
Changes in proportion and differences between District contributions and proportionate share of contributions	13,292	20,380
District's contributions subsequent to the measurement date (fiscal year District contributions)	<u>79,200</u>	<u>-</u>
Total	<u>\$ 276,700</u>	<u>\$ 96,553</u>

\$79,200 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 8 - PENSION PLAN, CONTINUED**Year Ended December 31:**

2020	\$	124,675
2021		90,360
2022		50,493
2023		13,422
Thereafter	\$	<u>278,950</u>

D. Actuarial Valuation

The Net Pension Liability is equal to the Total Pension Liability minus the Fiduciary Net Position. That result as of June 30, 2018, for the plan is presented in the table below:

	<u>Non-Hazardous</u>
Total Pension Liability	\$ 13,109,268
Fiduciary Net Position	<u>7,018,963</u>
Net Pension Liability	<u>\$ 6,090,305</u>
Ratio of Fiduciary Net Position to Total Pension Liability	53.50%

The following presents the net pension liability of CERS, calculated using the discount rate of 6.25%, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.25%) or one percentage point higher (7.25%) than the current rate for non-hazardous:

		<u>Non-Hazardous</u>	
	1%		
	Decrease	Current Discount	1% Increase
	(5.25%)	Rate (6.25%)	(7.25%)
District's proportionate share of Net Pension Liability	\$1,311,298	\$1,041,625	\$815,686

The Total Pension Liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 8 - PENSION PLAN, CONTINUED

	<u>Non-Hazardous</u>
Inflation	3.25%
Salary	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense including inflation

The target asset allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Cash Equivalent Long Term Expected Real Rate of Return</u>
US Equity	17.50%	4.87%
Non US Equity	17.50%	6.71%
Global Bonds	4.00%	3.00%
Global Credit	2.00%	3.75%
High Yield Fixed Income	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Private Equity	10.00%	6.50%
Cash	<u>2.00%</u>	1.50%
Total	<u>100.00%</u>	

The projection of cash flows used to determine the discount rate assumed that the employer would contribute the actuarially determined contribution rate of projected compensation. The remaining amortization period of the unfunded actuarial accrued liability is 28 years. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members.

The actuarial valuation date upon which the total pension liability was based is June 30, 2017. An expected total pension liability is determined as of June 30, 2018, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of June 30, 2018.

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 RP-2000 Combined Mortality Table projected with Scale BB to

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 8 - PENSION PLAN, CONTINUED

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The long-term assumed rate of return was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability for KERS Non-Hazardous and SPRS was 5.25%. However, for KERS Hazardous, CERS Non-Hazardous, and Hazardous, the discount rate was 6.25%. The long term assumed investment rate of return and discount rate were based upon an analysis adopted by the Board of Trustees on December 3, 2015.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

E. Pension Plan Fiduciary Net Position

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

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN

A. Plan Description

In addition to the pension benefits described in Note 8, the District participates in the Kentucky Retirement Systems Insurance Fund (Fund). The Fund was created by the Kentucky General Assembly pursuant to the provision of KRS 61.701 to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. KRS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

For the fiscal year ended June 30, 2018, insurance premiums withheld from benefit payments for members of the Systems approximated \$20.8 million and \$1.3 million for KERS and KERS hazardous,

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

respectively, \$23.8 million and \$2.8 million for CERS and CERS hazardous, respectively, and \$329,330 for SPRS. For fiscal year 2017, insurance premiums withheld from benefit payments for members of the system were \$20.3 million and \$1.3 million for KERS non-hazardous and hazardous, respectively; \$22.9 million and \$2.7 million for CERS non-hazardous and hazardous, respectively; and \$290,387 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 2017, the Fund had 123,602 members consisting of 33,481 inactive and receiving benefits, 8,230 inactive not yet receiving benefits, and 81,891 active plan members in the non-hazardous category.

The amount of contribution 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 contribution are as follows:

<u>Years of Service</u>	<u>Paid by Insurance Fund</u>
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

As a result of House Bill 290 (2004 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 ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, such employee's spouse receives ten dollars (\$10) per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. As of June 30, 2016, non-hazardous employees whose participation began on, or after, July 1, 2003 earn \$12.99 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees, whose participation began on, or after, July 1, 2003 earn \$19.48 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the Total OPEB liability). However, 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 the spouses and children of

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

all active members who die in the line of duty. The total OPEB liability as of June 30, 2018 is determined using these updated benefit provisions.

B. Contribution Policy

For fiscal years ended June 30, 2019, 2018 and 2017 participating employers contributed 5.26%, 4.70% and 4.73% for CERS non-hazardous, and 9.35% and 9.35% for CERS hazardous, respectively. The District's contributions to CERS for the fiscal year ending June 30, 2019, 2018 and 2017 were \$22,293, \$22,138 and \$12,457 respectively. The amount of contribution 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 contributions were \$13.38 and \$20.07 for CERS non-hazardous and CERS hazardous, respectively as of June 30, 2018.

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

At December 31, 2019, the District reported a liability of \$303,643 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the insurance plan relative to the projected contributions of all participating KRS members, actuarially determined. At June 30, 2018, the District's proportion was 0.017102% which was an increase of .000026% from its proportion measured as of June 30, 2017. For the year ended December 31, 2019 the District recognized OPEB expense of \$39,059. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 35,386
Changes in assumptions	60,642	702
Net difference between projected and actual investment earnings on pension plan investments	-	20,915
Changes in proportion and differences between District contributions and proportionate share of contributions	2,491	637
District's contributions subsequent to the measurement date (Current fiscal year District contributions)	<u>22,293</u>	<u>-</u>
Total	<u>\$ 85,426</u>	<u>\$ 57,640</u>

\$22,293 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	
2020	\$ 9,781
2021	9,781
2022	9,781
2023	9,781
Thereafter	<u>13,408</u>
	<u>\$ 52,532</u>

HENDERSON COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

D. Actuarial Valuation

The Net OPEB Liability is equal to the Total OPEB Liability minus the Fiduciary Net Position. That result as of June 30, 2018, for the plan is presented in the table below:

	<u>Non-Hazardous</u>
Total OPEB Liability	\$ 4,189,606
Fiduciary Net Position	<u>2,414,126</u>
Net Pension Liability	<u>\$ 1,775,480</u>
Ratio of Fiduciary Net Position to Total OPEB Liability	57.60%

The following presents the net OPEB liability of CERS, calculated using the discount rate of 5.85%, as well as what CERS net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.85%) or one percentage point higher (6.85%) than the current rate for non-hazardous.

Sensitivity of the Net OEB Liability to Changes in the Discount Rate

		<u>Non-Hazardous</u>	
	1%		
	Decrease	Current Discount	1% Increase
	(4.85%)	Rate (5.85%)	(6.85%)
District's proportionate share of Net Pension Liability	\$394,383	\$303,643	\$226,348

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend

		<u>Non-Hazardous</u>	
	1%		
	Decrease	Current Discount	1% Increase
	(4.85%)	Rate (5.85%)	(6.85%)
District's proportionate share of Net Pension Liability	\$226,064	\$303,643	\$395,084

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS – MEDICAL INSURANCE PLAN, CONTINUED

The Total OPEB Liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Non-Hazardous</u>
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method	Level Percent of Pay
Amortization Period	27 Years, Closed
Payroll Growth Rate	4.00%
Investment Return	7.50%
Inflation	3.25%
Salary Increases	4.00%, average, including
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Health Care Trend Rates (Pre-65)	Initial trend starting at 7.5% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Health Care Trend Rates (Post-65)	Initial trend starting at 5.5% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years

The actuarial valuation date upon which the total OPEB liability was based is June 30, 2017. An expected total OPEB liability is determined as of June 30, 2018, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year then applies the expected investment rate of return for the year. The procedure was used to determine the total OPEB liability as of June 30, 2018.

E. Prior Period Adjustment

Net position, as previously stated, December 31, 2017	\$ 9,980,689
Prior period adjustment - Implementation of GASB Statement No. 75: Net OPEB liability (measurement date)	<u>(382,382)</u>
Net position, as restated January 1, 2018	<u>\$ 9,598,307</u>

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS financial report at www.kyret.ky.gov.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2019 and 2018

NOTE 10 – OTHER EMPLOYEE BENEFITS

Compensated Absences

All employees of the Water District earn and accrue vacation and sick time. Employees accumulate two weeks paid vacation after the first year of service, three weeks after five years of service and four weeks after twenty years of service. Employees accrue one sick day per month which may be carried over each year. Upon termination, accumulated sick days are converted to vacation days at the rate of four sick days equaling one vacation day. An employee leaving for retirement will be paid their accumulated vacation and sick days converted to vacation as noted above. An employee leaving for any other reason will be paid only their accumulated vacation days. This liability is recorded in the financial statements.

NOTE 11 - DEFERRED OUTFLOWS

Deferred outflows reported for the years ending December 31, 2019 and 2018, consisted of the following:

	2019	2018
Loss on defeasance of bonds	\$ 73,600	\$ 85,220
District's proportion related to net pension liability	362,126	349,330
	<u>\$ 435,726</u>	<u>\$ 434,550</u>

NOTE 12 - DATE OF MANAGEMENT REVIEW

Management of the District has evaluated subsequent events through March 20, 2020, which is the date the financial statements were available to be issued.

HENDERSON COUNTY WATER DISTRICT
Schedule of District's Proportionate
Share of Net Pension Liability
County Employee Retirement System
Year Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.017103%	0.016842%	0.018005%	0.017380%	0.017380%
District's proportionate share of the pension liability (asset)	\$ 1,041,625	\$ 985,814	\$ 908,933	\$ 713,386	\$ 563,873
District's covered-employee payroll	\$ 445,326	\$ 444,384	\$ 400,712	\$ 425,653	\$ 424,452
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	233.90%	221.84%	226.83%	167.60%	132.85%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.32%	55.50%	59.97%	66.80%

HENDERSON COUNTY WATER DISTRICT
Schedule of District's Contributions
Kentucky Retirement System
Year Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 79,200	\$ 68,205	\$ 75,862	\$ 76,005	\$ 72,111
Contributions in relation to the contractually required contribution	<u>(79,200)</u>	<u>(68,205)</u>	<u>(75,862)</u>	<u>(76,005)</u>	<u>(72,111)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 445,326	\$ 444,384	\$ 400,712	\$ 425,653	\$ 424,452
Contributions as a percentage of covered-employee payroll	17.78%	15.35%	18.93%	17.86%	16.99%

HENDERSON COUNTY WATER DISTRICT
Schedule of District's Proportionate
Share of Net OPEB Liability - Non Hazardous
Medical Insurance Plan
Year Ended December 31, 2019

	<u>2019</u>	<u>2018</u>
District's proportion of the net pension liability	0.017103%	0.016842%
District's proportionate share of the pension liability (asset)	\$ 303,643	\$ 338,582
District's covered-employee payroll	\$ 445,326	\$ 444,384
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	68.18%	76.19%
Plan fiduciary net position as a percentage of the total pension liability	57.62%	52.39%

HENDERSON COUNTY WATER DISTRICT
Schedule of District's Contributions - Medical Insurance Plan
Kentucky Retirement System
Year Ended December 31, 2019

	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 22,293	\$ 22,138
Contributions in relation to the contractually required contribution	<u>(22,293)</u>	<u>(22,138)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 444,384	\$ 444,384
Contributions as a percentage of covered-employee payroll	5.02%	4.98%

HENDERSON COUNTY WATER DISTRICT
Schedule of Revenues, Expenses and Changes in Fund Net Position
Budget and Actual
Year Ended December 31, 2019

	Actual Amounts	Budgeted Amounts	Over/(Under) Budget
Operating revenues:			
Water	\$ 3,080,066	\$ 3,100,000	\$ (19,934)
Penalties and sundry	112,930	105,000	7,930
Total operating revenues	<u>3,192,996</u>	<u>3,205,000</u>	<u>(12,004)</u>
Operating expenses:			
Purchased water	1,447,602	1,400,000	47,602
Pumping utilities	58,451	60,000	(1,549)
Maintenance of system	359,547	375,000	(15,453)
Vehicle and equipment	37,825	54,000	(16,175)
Customer accounts	130,642	130,000	642
Administration	562,911	600,000	(37,089)
Depreciation	430,888	414,176	16,712
Total operating expenses	<u>3,027,866</u>	<u>3,033,176</u>	<u>(5,310)</u>
Operating income	<u>165,130</u>	<u>171,824</u>	<u>(6,694)</u>
Non-operating revenues (expenses):			
Investment income	50,125	30,000	20,125
Interest expense	(137,041)	(147,802)	10,761
Total non-operating revenues (expenses)	<u>(86,916)</u>	<u>(117,802)</u>	<u>30,886</u>
Income (loss) before contributions	78,214	54,022	24,192
Capital contributions	<u>26,765</u>	<u>-</u>	<u>26,765</u>
Change in net assets	104,979	54,022	50,957
Net position, beginning of year	<u>9,591,447</u>	<u>9,591,447</u>	<u>-</u>
Net position, end of year	<u>\$ 9,696,426</u>	<u>\$ 9,645,469</u>	<u>\$ 50,957</u>

HENDERSON COUNTY WATER DISTRICT
Schedule of System Maintenance, Customer Accounts
and Administrative Expenses
Years Ended December 31, 2019 and 2018

	2019	2018
<u>Maintenance of System:</u>		
Maintenance of mains	\$ 214,262	\$ 197,974
Materials & supplies - transmission	98,678	70,950
Materials & supplies - pumping	3,705	1,655
Maintenance of tanks	42,458	1,309
Rental - equipment	444	252
	<u>\$ 359,547</u>	<u>\$ 272,140</u>
<u>Customer accounts:</u>		
Salaries - meter reading	\$ 20,261	\$ 14,482
Billing and collections - labor and materials	97,587	90,754
Bad debts	13,212	3,594
Collection fees	(418)	272
	<u>\$ 130,642</u>	<u>\$ 109,102</u>
<u>Administration:</u>		
Salaries	\$ 108,851	\$ 92,630
Vacation and unassigned salaries	60,853	61,003
Commissioner's fees	10,050	9,600
Payroll taxes	36,586	35,953
Employee benefits	226,996	239,522
Office and computer expense	17,755	12,360
Telephone and utilities	13,590	12,187
Advertising	71	306
Professional fees	16,986	18,716
Insurance	32,704	55,938
Regulatory commission	7,056	8,305
Maintenance - office	12,663	10,984
Miscellaneous and general	18,750	12,084
	<u>\$ 562,911</u>	<u>\$ 569,588</u>

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

To the Board of Commissioners
Henderson County Water District
Henderson, 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 Henderson County Water District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Henderson County Water District's basic financial statements and have issued our report thereon dated March 20, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Henderson 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Henderson County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Henderson 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items that we consider to be significant deficiencies [2019-1].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Henderson 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*.

Henderson County Water District's Response to Findings

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

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Henderson, Kentucky
March 20, 2020

HENDERSON COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2019

FINDINGS – FINANCIAL STATEMENT AUDIT

2019-1 Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust in employees is necessitated. Ideally, each key step of an accounting system should be segregated among employees. However, this is not always feasible due to the cost versus benefit relationship inherent in providing internal control. In the process of segregating functions among employees, management must continually make decisions relating to the applicable costs in comparison to the expected benefits to be achieved.

Deficiency: The Water District has a lack of segregation of duties involving key steps in the accounting system between employees.

Criteria: Internal controls should be in place that provides reasonable assurance that accounting transactions (billings, adjustments, cash receipts and disbursements) are properly recorded and authorized.

Effect: Because of a lack of segregation of duties involving key steps in the accounting system, transactions may occur that are not properly recorded, or authorized.

Recommendation: We recommend the segregation of duties between accounting employees to the extent possible based on limited personnel.

Management Response: Management is aware of the costs and benefits related to providing internal control, however, the risk of loss is mitigated via the purchase of insurance coverage to protect the Water District against loss. Management and those charged with governance will continue to provide strong oversight to the Water District's operations.