

HENDERSON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

HENDERSON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

TABLE OF CONTENTS

| | |
|---|-------|
| Management's discussion and analysis | 1-2 |
| Independent auditor's report | 3-4 |
| Basic financial statements: | |
| Statements of net position | 5 |
| Statements of revenues, expenses and changes in fund net position | 6 |
| Statements of cash flows | 7 |
| Notes to financial statements | 8-28 |
| Required supplementary information: | |
| Schedule of District's proportionate share of net pension liability - county employee retirement system | 29 |
| Schedule of District's contributions - Kentucky Retirement System | 30 |
| Schedule of District's proportionate share of net OPEB liability - non hazardous medical insurance plan | 31 |
| Schedule of District's contributions - medical insurance plan Kentucky Retirement System | 32 |
| Supplementary financial information: | |
| Schedule of revenues, expenses and changes in net position - budget and actual | 33 |
| Schedule of system maintenance, customer accounts and administrative expenses | 34 |
| 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 <i>government auditing standards</i> | 35-36 |
| Schedule of findings and responses | 37 |

HENDERSON COUNTY WATER DISTRICT
Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

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, 2020 and 2019.

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 \$196,084 from \$15,940,437 in 2019 to \$15,744,353 in 2020, primarily due to decreases in inventory and capital assets.

Operating revenues for 2020 decreased by \$95,606, from \$3,192,996 in 2019 to \$3,097,390 in 2020, primarily due to a decrease in penalties and miscellaneous billings due to mandates as a result COVID-19 and less water revenue.

Operating expenses decreased by \$60,769, or 2%, from \$3,027,866 in 2019 to \$2,967,097 in 2020, primarily attributable to the decrease in purchased water and maintenance expenses.

Operating income decreased by \$34,837, or 21%, from \$165,130 in 2019 to \$130,293 in 2020, primarily due to decreased costs.

Condensed Financial Information:

A summary of condensed financial information is as follows:

| | December 31, 2020 | December 31, 2019 | Change | Percentage |
|--|----------------------|----------------------|---------------------|------------|
| Current assets | \$ 1,666,559 | \$ 1,649,406 | \$ 17,153 | 1% |
| Restricted assets | 953,966 | 927,687 | 26,279 | 3% |
| Noncurrent assets | 76,867 | 73,590 | 3,277 | 4% |
| Capital assets | 12,582,273 | 12,854,028 | (271,755) | -2% |
| Deferred outflows of resources | 464,688 | 435,726 | 28,962 | 7% |
| Total assets and deferred outflows | <u>\$ 15,744,353</u> | <u>\$ 15,940,437</u> | <u>\$ (196,084)</u> | <u>-1%</u> |
| Current liabilities | \$ 629,472 | \$ 661,723 | \$ (32,251) | -5% |
| Long-term liabilities | 5,209,525 | 5,428,095 | (218,570) | -4% |
| Deferred inflows of resources | 160,277 | 154,193 | 6,084 | 4% |
| Total liabilities and deferred inflows | <u>5,999,274</u> | <u>6,244,011</u> | <u>(244,737)</u> | <u>-4%</u> |
| Net position | | | | |
| Invested in capital assets | 8,627,801 | 8,499,560 | 128,241 | 2% |
| Restricted - debt service | 953,966 | 927,687 | 26,279 | 3% |
| Unrestricted | 163,312 | 269,179 | (105,867) | -39% |
| Total net position | <u>9,745,079</u> | <u>9,696,426</u> | <u>48,653</u> | <u>1%</u> |
| Total liabilities and net position | <u>\$ 15,744,353</u> | <u>\$ 15,940,437</u> | <u>\$ (196,084)</u> | <u>-1%</u> |

Total net position decreased by \$56,326, largely due to a decrease in capital assets and in operating income.

| | December 31, 2020 | December 31, 2019 | Change | Percentage |
|-----------------------------|-------------------|-------------------|--------------------|-------------|
| Operating revenues | \$ 3,097,390 | \$ 3,192,996 | \$ (95,606) | -3% |
| Operating expenses | 2,967,097 | 3,027,866 | 60,769 | 2% |
| Operating income | <u>130,293</u> | <u>165,130</u> | <u>(34,837)</u> | <u>-21%</u> |
| Non-operating revenues, net | (113,850) | (86,916) | (26,934) | -31% |
| Capital contributions | <u>32,210</u> | <u>26,765</u> | <u>5,445</u> | <u>20%</u> |
| Change in net position | <u>\$ 48,653</u> | <u>\$ 104,979</u> | <u>\$ (56,326)</u> | <u>-54%</u> |

Operating income is less than prior year due to decrease in operating revenues. Operating expenses decreased primarily due to a decrease in water purchased as well as a rate decrease. Operating expenses are also less than prior year as maintenance costs were down. Capital contributions are more than prior year because of money received from individuals for tap fees and 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, 2020 and 2019:

| | December 31, 2020 | December 31, 2019 | Change | Percentage |
|---|-------------------|-------------------|--------------------|-------------|
| Net cash provided (used) by: | | | | |
| Operating activities | \$ 658,119 | \$ 666,912 | \$ (8,793) | -1% |
| Non-capital financing | 14,326 | 16,171 | (1,845) | -11% |
| Capital and related financing | (637,071) | (643,026) | 5,955 | 1% |
| Investing activities | <u>5,692</u> | <u>19,752</u> | <u>(14,060)</u> | <u>-71%</u> |
| Net change in cash and cash equivalents | <u>\$ 41,066</u> | <u>\$ 59,809</u> | <u>\$ (18,743)</u> | <u>-31%</u> |

Cash flows from operating activities were less by \$8,793 due primarily to decreased expenses such as water purchased and maintenance expenses as well as decrease in revenue. Cash used by capital and related financing activities decreased by \$5,955 due to less capital expenses in the current year. Cash flows from investing activities decreased by \$14,060 due to a decrease in interest earned.

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 \$144,953 on capital assets during 2020, and \$155,682 during 2019.

Long-term Debt:

As of December 31, 2020, the Henderson County Water District has \$3,549,544 in long-term debt outstanding, consisting of an Old National Bank Loan in the amount of \$153,959, Revenue Bond Series 2013 and 2013A in the amount of \$1,832,000, and Revenue Bond Series 2016B in the amount of \$1,563,585. Revenues of the District are pledged to secure these obligations.

Economic Factors:

Water sales for the fiscal year ending December 31, 2020 are estimated by management to remain at relatively similar levels of previous years, while revenues may be down as the District passed through a decrease in rate to customers in 2020 due to a decrease in cost of water purchased from the Henderson Water Utility.

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 the Henderson County Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the 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, 2020, 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, and the District's proportionate share of net pension liability to the county employee retirement system on page 29, the schedule of the District's contributions to Kentucky Retirement System on page 30, the schedule of District's proportionate share of net OPEB liability to the non-hazardous medical insurance plan on page 31, and the schedule of District's contributions to medical insurance plan of Kentucky Retirement System on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an

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

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 expense 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 22, 2021, 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

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Henderson, KY
March 22, 2021

HENDERSON COUNTY WATER DISTRICT

Statements of Net Position
December 31, 2020 and 2019

| | 2020 | 2019 |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 671,883 | \$ 648,948 |
| Investments, at cost | 539,676 | 533,494 |
| Receivables, net | 343,537 | 359,150 |
| Interest receivable | 4,520 | 4,520 |
| Inventories | 75,722 | 78,030 |
| Prepaid expenses | 31,221 | 25,264 |
| Total current assets | <u>1,666,559</u> | <u>1,649,406</u> |
| Utility, plant, equipment and construction in progress | <u>12,582,273</u> | <u>12,854,028</u> |
| Other non-current assets: | | |
| Restricted cash and cash equivalents | 580,722 | 562,591 |
| Restricted investments, at cost | 373,244 | 365,096 |
| Other investments, at cost | 76,867 | 73,590 |
| Total other non-current assets | <u>1,030,833</u> | <u>1,001,277</u> |
| Total assets | <u>15,279,665</u> | <u>15,504,711</u> |
| Deferred outflows of resources | <u>464,688</u> | <u>435,726</u> |
| Total assets and deferred outflows | <u>15,744,353</u> | <u>15,940,437</u> |
| <u>LIABILITIES</u> | | |
| Current liabilities: | | |
| Accounts payable | 120,072 | 179,172 |
| Interest payable | 54,998 | 59,995 |
| Other liabilities | 49,474 | 29,795 |
| Bonds and notes payable, net | 404,928 | 392,761 |
| Total current liabilities | <u>629,472</u> | <u>661,723</u> |
| Non-current liabilities: | | |
| Customer security deposits | 135,446 | 121,120 |
| Net pension liability | 1,524,535 | 1,345,268 |
| Bonds and notes payable, net | 3,549,544 | 3,961,707 |
| Total non-current liabilities | <u>5,209,525</u> | <u>5,428,095</u> |
| Total liabilities | <u>5,838,997</u> | <u>6,089,818</u> |
| Deferred inflows of resources | <u>160,277</u> | <u>154,193</u> |
| <u>NET POSITION</u> | | |
| Invested in capital assets, net of related debt | 8,627,801 | 8,499,560 |
| Restricted for debt service | 953,966 | 927,687 |
| Unrestricted | 163,312 | 269,179 |
| Total net position | <u>\$ 9,745,079</u> | <u>\$ 9,696,426</u> |

HENDERSON COUNTY WATER DISTRICT
Statements of Revenues, Expenses and Changes in Fund Net Position
December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Operating revenues: | | |
| Water | \$ 3,045,077 | \$ 3,080,066 |
| Penalties and sundry | 52,313 | 112,930 |
| Total operating revenues | <u>3,097,390</u> | <u>3,192,996</u> |
| Operating expenses: | | |
| Purchased water | 1,398,344 | 1,447,602 |
| Pumping utilities | 54,859 | 58,451 |
| Maintenance of system | 294,744 | 359,547 |
| Vehicle and equipment | 23,553 | 37,825 |
| Customer accounts | 122,826 | 130,642 |
| Administration | 655,670 | 562,911 |
| Depreciation | 417,101 | 430,888 |
| Total operating expenses | <u>2,967,097</u> | <u>3,027,866</u> |
| Operating income | <u>130,293</u> | <u>165,130</u> |
| Non-operating revenues (expenses): | | |
| Investment income | 24,259 | 50,125 |
| Interest expense | (131,855) | (137,041) |
| Gain (loss) on disposal of assets | (6,254) | - |
| Total non-operating revenues (expenses) | <u>(113,850)</u> | <u>(86,916)</u> |
| Income (loss) before contributions | 16,443 | 78,214 |
| Capital contributions | <u>32,210</u> | <u>26,765</u> |
| Change in net position | 48,653 | 104,979 |
| Net position, beginning of year, as previously stated | <u>9,696,426</u> | <u>9,591,447</u> |
| Net position, end of year | <u>\$ 9,745,079</u> | <u>\$ 9,696,426</u> |

HENDERSON COUNTY WATER DISTRICT

Statements of Cash Flows
December 31, 2020 and 2019

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 3,060,690 | \$ 3,076,752 |
| Cash payments to suppliers for goods and services | (1,818,524) | (1,823,879) |
| Cash payments to employees for services | (636,360) | (698,891) |
| Other operating revenues | 52,313 | 112,930 |
| Net cash provided by operating activities | <u>658,119</u> | <u>666,912</u> |
| Cash flows from noncapital financing activities: | | |
| Increase (decrease) in customer deposits | 14,326 | 16,171 |
| Net cash provided by noncapital financing activities | <u>14,326</u> | <u>16,171</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (144,953) | (155,682) |
| Capital contributions | 32,210 | 26,765 |
| Principal paid on revenue bond maturities and other capital notes | (392,761) | (376,172) |
| Interest paid on revenue bonds and other capital notes | (131,567) | (137,937) |
| Net cash (used) by capital and related financing activities | <u>(637,071)</u> | <u>(643,026)</u> |
| Cash flows from investing activities: | | |
| (Increase) decrease in investment securities | (17,607) | (25,063) |
| Interest income | 23,299 | 44,815 |
| Net cash provided by investing activities | <u>5,692</u> | <u>19,752</u> |
| Net increase (decrease) in cash and cash equivalents | 41,066 | 59,809 |
| Cash and cash equivalents, beginning of year | <u>1,211,539</u> | <u>1,151,730</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,252,605</u> | <u>\$ 1,211,539</u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | |
| Operating income | \$ 130,293 | \$ 165,130 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 417,101 | 430,888 |
| Pension expense | 248,223 | 119,607 |
| (Increase) decrease in accounts receivable | 15,613 | (3,314) |
| (Increase) decrease in inventories | 2,308 | 37,563 |
| (Increase) decrease in prepaid expenses | (5,957) | (731) |
| (Increase) decrease in deferred outflows | (105,044) | (101,493) |
| Increase (decrease) in accounts payable | (59,100) | 17,466 |
| Increase (decrease) in accrued liabilities | 14,682 | 1,796 |
| Net cash provided by operating activities | <u>\$ 658,119</u> | <u>\$ 666,912</u> |
| Summary of cash and cash equivalents: | | |
| Unrestricted cash equivalents | \$ 671,883 | \$ 648,948 |
| Restricted cash equivalents | 580,722 | 562,591 |
| Total cash and cash equivalents | <u>\$ 1,252,605</u> | <u>\$ 1,211,539</u> |

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

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, 2020.

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, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019 was \$10,865 and \$12,409, 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, 2020 and 2019 was \$5,469 and \$2,430, respectively.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

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, 2020, the carrying amount of the Water District's deposits, including certificates of deposit, was \$2,242,192. Of the total bank balances (including certificates of deposit), \$500,000 was covered by Federal Depository Insurance. As of December 31, 2020, 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, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|-------------------|-------------------|
| Current: | | |
| Certificates of deposit | \$ 539,676 | \$ 533,494 |
| Noncurrent: | | |
| Certificates of deposit, restricted | 373,244 | 365,096 |
| Certificates of deposit, unrestricted | 76,867 | 73,590 |
| | <u>\$ 989,787</u> | <u>\$ 972,180</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, 2020 and 2019

NOTE 6 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2020 and 2019:

| | December 31, 2020 | | | Ending Balance |
|--|----------------------|--------------|-----------|-------------------|
| | Beginning Balance | Increases | Decreases | |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 272,181 | \$ - | \$ - | \$ 272,181 |
| Construction in progress | 105,471 | 74,473 | - | 179,944 |
| Capital assets, being depreciated: | | | | |
| Distribution systems | 18,801,862 | 74,430 | - | 18,876,292 |
| Buildings | 1,063,935 | - | 4,900 | 1,059,035 |
| Equipment | 825,862 | 2,697 | 13,305 | 815,254 |
| Total capital assets | 21,069,311 | 151,600 | 18,205 | 21,202,706 |
| Less: accumulated depreciation | | | | |
| Distribution systems | 7,041,753 | 319,419 | - | 7,361,172 |
| Buildings | 565,976 | 43,840 | 1,266 | 608,550 |
| Equipment | 607,554 | 53,842 | 10,685 | 650,711 |
| Total accumulated depreciation | 8,215,283 | 417,101 | 11,951 | 8,620,433 |
| Capital assets, net | \$ 12,854,028 | \$ (265,501) | \$ 6,254 | \$12,582,273 |
| | | | | |
| | 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 |

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 7 - LONG-TERM DEBT

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

| | December 31, 2020 | | | |
|--------------------------------|-------------------|-----------|------------|----------------|
| | Beginning Balance | Additions | Payments | Ending Balance |
| Revenue bond series 2013 | \$ 1,606,500 | - | \$ 24,000 | \$ 1,582,500 |
| Revenue bond series 2013 A | 283,500 | - | 4,500 | 279,000 |
| Revenue bond series 2016 B | 2,195,000 | - | 330,000 | 1,865,000 |
| Old National Bank note | 223,648 | - | 34,261 | 189,387 |
| | 4,308,648 | - | 392,761 | 3,915,887 |
| Add: unamortized premiums | 45,820 | - | 7,235 | 38,585 |
| Bonds/notes payable @ 12/31/20 | \$ 4,354,468 | - | \$ 399,996 | \$ 3,954,472 |

| | 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 |

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, 2020 and 2019

NOTE 7 - LONG-TERM DEBT, CONTINUED

Bonds and notes payable at December 31, 2020 and 2019 are comprised of the following:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Notes Payable: | | |
| 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 pledge of system revenues | \$ 189,387 | \$ 223,648 |
| Revenue Bonds: | | |
| \$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% | 1,865,000 | 2,195,000 |
| Add: Unamortized bond premium | 38,585 | 45,820 |
| | | |
| \$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% | 1,582,500 | 1,606,500 |
| | | |
| \$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% | <u>279,000</u> | <u>283,500</u> |
| | | |
| Total bonds and notes payable | 3,954,472 | 4,354,468 |
| Less: current portion | <u>404,928</u> | <u>392,761</u> |
| | | |
| Long-term portion | <u>\$ 3,549,544</u> | <u>\$ 3,961,707</u> |

The annual requirements to amortize all bonds/notes outstanding as of December 31, 2020, including interest payments are as follows:

| <u>Year ending December 31</u> | <u>Revenue Bonds/Notes</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|--------------------------------|---------------------|---------------------|
| 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 | 349,912 | 66,678 | 416,590 |
| 2026-2030 | 477,000 | 288,697 | 765,697 |
| 2031-2035 | 230,500 | 247,617 | 478,117 |
| 2036-2040 | 276,500 | 198,273 | 474,773 |
| 2041-2045 | 332,500 | 138,968 | 471,468 |
| 2046-2050 | 398,500 | 67,884 | 466,384 |
| 2051 and thereafter | 271,500 | 4,259 | 275,759 |
| | <u>\$ 3,915,887</u> | <u>\$ 1,383,051</u> | <u>\$ 5,298,938</u> |

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

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 participates in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems (KRS), an agency of the Commonwealth of Kentucky. CERS covers all full-time and eligible part-time employees employed in nonhazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of Kentucky Retirement Systems (Board). KRS issues a publicly available financial report that includes audited financial statements and audited required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

B. Benefits Provided

CERS provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date, retirement date and years of service. The information below summarizes the major retirement benefit provisions of CERS. For retirement and benefit purposes, employees are grouped into three tiers. The following summaries are not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Tier 1:

For members whose participation began before September 1, 2008, the following provisions are in force:

Age and service requirement:

Unreduced Benefit: Age 65, with at least 48 months of service credit.

Age 65, with at least one month of non-hazardous duty service credit.

Any age with 27 or more years of service credit.

Reduced Benefit: Age 55, with at least five (5) years of service credit.

Any age with at least 25 and up to 27 years of service credit.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 - PENSION PLAN, CONTINUED

Benefit Amount:

For members whose participation began before August 1, 2004, if a member has at least 48 months of service, the monthly benefit is 2.2% times final average compensation times years of service. For members whose participation began on or after August 1, 2004, the benefit factor is 2.0%. Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

If a member has at least one month but less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Compensation:

Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used.

Tier 2:

For members whose participation began on or after September 1, 2008, but before January 1, 2014, the following provisions are in force:

Age and service requirement:

Unreduced Benefit: Age 65, with at least 60 months of service credit.

Age 57, if members age and years of service equal 87 (Rule of 87)

Reduced Benefit: Age 60, with at least 120 months of service credit

Benefit Amount:

The monthly benefit is the following benefit factor based on service credit at retirement multiplied by final average compensation, multiplied by years of service.

| <u>Service Credit</u> | <u>Benefit Factor</u> |
|-----------------------|-----------------------|
| 120 months of less | 1.10% |
| 121-240 months | 1.30% |
| 241-312 months | 1.50% |
| 313-360 months | 1.75% |
| Over 360 months | 2.00% |

Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 8 - PENSION PLAN, CONTINUED

Compensation:

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Tier 3:

For members whose participation began on or after January 1, 2014, the following provisions are in force:

Age and service requirement:

Unreduced Benefit: Age 65, with at least 60 months of service credit.

Age 57, if members age and years of service equal 87 (Rule of 87)

Reduced Benefit: Not available

Benefit Amount:

Plan members in Tier 3 participate in and 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. Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 5.00% and 4.00%, respectively, of creditable compensation into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

For all tiers, cost of living adjustments (COLA) are provided only if authorized by the Legislature and are at the discretion of the General Assembly. Please refer to the Summary Plan Description, available from KRS, for a complete description of all Plan benefits and provisions.

C. Contributions

Per Kentucky Revised Statutes Sections 78.545 (33), contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board. Plan members, are required to contribute a percentage of their annual creditable compensation based on their benefit tier as follows:

| | <u>Required Contributions</u> |
|--------|-----------------------------------|
| Tier 1 | 5% |
| Tier 2 | 5% + 1% for health insurance fund |
| Tier 3 | 5% + 1% for health insurance fund |

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 8 - PENSION PLAN, CONTINUED

The District's actuarially determined contribution rate for the year ended December 31, 2020, was 24.06% of annual creditable compensation. Of these determined contribution rates, 19.30% and 4.76%, which makes up the 24.06% was contributed to the Pension and OPEB Funds within CERS, respectively. Contributions to CERS Pension Fund and OPEB Fund by the District were \$81,448 and \$23,596, respectively, for the year ended December 31, 2020.

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

At December 31, 2020, the District reported a liability of \$1,230,361 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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, 2019, the District's proportion was 0.017494% for non-hazardous which was an increase of 0.000391% from its proportion measured as of June 30, 2018. For the year ended December 31, 2020 the District recognized pension expense of \$214,745. At December 31, 2020 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2020 | |
|---|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ 31,415 | \$ 5,199 |
| Changes in assumptions | 124,526 | - |
| Net difference between projected and actual investment earnings on pension plan investments | 23,618 | 43,452 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 22,399 | 6,793 |
| District's contributions subsequent to the measurement date (fiscal year District contributions) | 81,448 | - |
| Total | \$ 283,406 | \$ 55,444 |

\$81,448 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, 2020. 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, 2020 and 2019

NOTE 8 - PENSION PLAN, CONTINUED

| Year Ended December 31: | |
|-------------------------|-------------------|
| 2020 | \$ 90,073 |
| 2021 | 39,744 |
| 2022 | 15,291 |
| 2023 | 1,406 |
| Thereafter | <u>\$ 146,514</u> |

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.30% |
| Salary increases | 3.30% to 11.55%, varies by service |
| Investment rate of return | 6.25% net of Plan investment expense, including inflation |

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for the males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

Discount rate: The discount rate used to measure the total pension liability was 6.25%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Long term rate of return: The long term rate of return assumption 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 April 30, 2014. Several factors are considered in determining 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 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 capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. 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.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 8 - PENSION PLAN, CONTINUED

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

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

Assumed Asset Allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|-----------------------------|--------------------------|---|
| US Equity | 18.75% | 4.30% |
| Non-US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit/High Yield | 15.00% | 2.60% |
| Core Bonds | 13.50% | 1.35% |
| Cash | 1.00% | 0.20% |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | <u>15.00%</u> | 4.10% |
| Total | <u>100.00%</u> | |

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

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

| | Non-Hazardous | | |
|--------------------------------|--------------------|-------------------------|--------------------|
| | <u>1% Decrease</u> | <u>Current Discount</u> | <u>1% Increase</u> |
| District's proportionate share | (5.25%) | (6.25%) | (7.25%) |
| of Net Pension Liability | \$1,538,832 | \$1,230,361 | \$973,253 |

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 8 - PENSION PLAN, CONTINUED

F. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates effective for fiscal year ending 2019 are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are below:

| | <u>Non-Hazardous</u> |
|-------------------------------|---|
| Determined by the | |
| Asset Valuation Method as of: | June 30, 2017 |
| 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: | 26 Years, Closed |
| Payroll Growth Rate: | 2.00% |
| Investment Return: | 6.25% |
| 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) |

G. Changes in Assumptions and Benefit Terms

There were no changes in assumptions or benefit terms since the prior measurement date.

H. Changes Since Measurement Date

There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

I. Pension Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

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

A. Plan Description

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KRS, including those in the County Employees Retirement System (CERS), which the District participates. The fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. The allocation of insurance premiums paid by

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

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

the Fund and amounts withheld from member benefits is based on years of service with the Systems. For member participating prior to July 1, 2003, years of service and respective percentage 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 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, nonhazardous 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. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is at the discretion of the Kentucky General Assembly who reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Retirement System Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502-564-4646).

B. Contribution Policy

The District's actuarially determined contribution rate for the year ended December 31, 2020, was 24.06% of annual creditable compensation. Of these determined contribution rates, 19.30% and 4.76%, which makes up the 24.06% was contributed to the Pension and OPEB Funds within CERS, respectively. Contributions to CERS Pension Fund and OPEB Fund by the District were \$81,448 and \$23,596, respectively, for the year ended December 31, 2020.

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

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

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

At December 31, 2020, the District reported a liability of \$294,174 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 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, 2019, the District's proportion was 0.017490% which was an increase of .000388% from its proportion measured as of June 30, 2018. For the year ended December 31, 2020 the District recognized OPEB expense of \$33,478. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>2020</u> | |
|---|---|--|
| | <u>Deferred</u> <u>Outflows of</u> <u>Resources</u> | <u>Deferred</u> <u>Inflows of</u> <u>Resources</u> |
| Difference between expected and actual experience | \$ - | \$ 88,759 |
| Changes in assumptions | 87,049 | 582 |
| Net difference between projected and actual investment earnings on pension plan investments | 1,938 | 15,004 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 6,721 | 488 |
| District's contributions subsequent to the measurement date (Current fiscal year District contributions) | <u>23,596</u> | <u>-</u> |
| Total | <u>\$ 119,304</u> | <u>\$ 104,833</u> |

\$23,596 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

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

| Year Ended December 31: | |
|-------------------------|-------------------|
| 2020 | \$ (976) |
| 2021 | (976) |
| 2022 | 3,178 |
| 2023 | (4,783) |
| 2024 | (4,790) |
| Thereafter | (779) |
| | <u>\$ (9,126)</u> |

D. Actuarial Assumptions

The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.30% |
| Salary increases | 3.30% to 11.55%, varies by service |
| Investment rate of return | 6.25% net of Plan investment expense, including inflation |

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for the males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. 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, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

Discount rate: The discount rate used to measure the total OPEB liability was 5.68%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Long term rate of return: The long term rate of return assumption 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 April 30, 2014. Several factors are considered in determining the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

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

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 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 capital market assumptions developed by the investment consultant are intended for use over a 10 year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. 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.

Municipal bond rate: The discount rate determination was 3.13%.

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

Assumed Asset Allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| US Equity | 18.75% | 4.30% |
| Non-US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit | 15.00% | 2.60% |
| Core Bonds | 13.50% | 1.35% |
| Cash | 1.00% | 0.20% |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | <u>15.00%</u> | 4.10% |
| Total | <u>100.00%</u> | |

The following presents the net OPEB liability of CERS, calculated using the discount rate of 5.68%, as well as what CERS net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.68%) or one percentage point higher (6.68%) than the current rate for non-hazardous.

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

| | <u>Non-Hazardous</u> | | |
|---|----------------------|--------------------------------------|----------------------|
| | <u>1% Decrease</u> | <u>Current Discount Rate (5.68%)</u> | <u>1% Increase</u> |
| District's proportionate share of Net Pension Liability | (4.68%) \$394,072 | Rate (5.68%) \$294,174 | (6.68%) \$211,865 |

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

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

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

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

| | 1% | <u>Non-Hazardous</u> | |
|---|----------------------|---------------------------|----------------------|
| | <u>Decrease</u> | <u>Current Discount</u> | <u>1% Increase</u> |
| District's proportionate share of Net Pension Liability | (4.68%) \$218,779 | Rate (5.68%) \$294,174 | (6.68%) \$385,600 |

E. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates effective for fiscal year ending 2019 are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are below:

| | <u>Non-Hazardous</u> |
|--------------------------------------|---|
| Determined by the | |
| Asset Valuation Method as of: | June 30, 2017 |
| 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: | 26 Years, Closed |
| Payroll Growth Rate: | 2.00% |
| Investment Return: | 6.25% |
| 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) |
| Healthcare Trend Rates: (Pre-65) | Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. |
| Healthcare Trend Rates: (Post-65) | Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. |
| Phase-in Provision: | Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018. |

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements
December 31, 2020 and 2019

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

F. Changes in Assumptions and Benefit Terms

There were no changes in benefit terms since the prior measurement date. The following changes of assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019 as follows:

The assumed discount rate changed from 5.85% to 5.68%

G. Changes Since Measurement Date

There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

H. Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

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, 2020 and 2019, consisted of the following:

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Loss on defeasance of bonds | \$ 61,978 | \$ 73,600 |
| District's proportion related to net pension liability | 402,710 | 362,126 |
| | <u>\$ 464,688</u> | <u>\$ 435,726</u> |

HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 12 - DATE OF MANAGEMENT REVIEW

Management of the District has evaluated subsequent events through March 22, 2021, which is the date the financial statements were available to be issued. Management is currently evaluating the impact of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the District's financial position and results of operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

HENDERSON COUNTY WATER DISTRICT
Schedule of District's Proportionate
Share of Net Pension Liability
County Employee Retirement System
Year Ended December 31, 2020

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------|--------------|-------------|-------------|-------------|-------------|
| District's proportion of the net pension liability | 0.017494% | 0.017103% | 0.016842% | 0.018005% | 0.017380% | 0.017380% |
| District's proportionate share of the pension liability (asset) | \$ 1,230,361 | \$ 1,041,625 | \$ 985,814 | \$ 908,933 | \$ 713,386 | \$ 563,873 |
| District's covered-employee payroll | \$ 422,012 | \$ 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 | 291.55% | 233.90% | 221.84% | 226.83% | 167.60% | 132.85% |
| Plan fiduciary net position as a percentage of the total pension liability | 50.45% | 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, 2020

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Contractually required contributions | \$ 81,448 | \$ 79,200 | \$ 68,205 | \$ 75,862 | \$ 76,005 | \$ 72,111 |
| Contributions in relation to the contractually required contribution | <u>(81,448)</u> | <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> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 422,012 | \$ 445,326 | \$ 444,384 | \$ 400,712 | \$ 425,653 | \$ 424,452 |
| Contributions as a percentage of covered-employee payroll | 19.30% | 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, 2020

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|-------------|
| District's proportion of the net pension liability | 0.017490% | 0.017103% | 0.016842% |
| District's proportionate share of the pension liability (asset) | \$ 294,174 | \$ 303,643 | \$ 338,582 |
| District's covered-employee payroll | \$ 422,012 | \$ 445,326 | \$ 444,384 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll | 69.71% | 68.18% | 76.19% |
| Plan fiduciary net position as a percentage of the total pension liability | 60.44% | 57.62% | 52.39% |

HENDERSON COUNTY WATER DISTRICT
Schedule of District's Contributions - Medical Insurance Plan
Kentucky Retirement System
Year Ended December 31, 2020

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-----------------|-----------------|-----------------|
| Contractually required contributions | \$ 20,088 | \$ 22,293 | \$ 22,138 |
| Contributions in relation to the contractually required contribution | <u>(20,088)</u> | <u>(22,293)</u> | <u>(22,138)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 422,012 | \$ 445,326 | \$ 444,384 |
| Contributions as a percentage of covered-employee payroll | 4.76% | 5.01% | 4.98% |

HENDERSON COUNTY WATER DISTRICT
Schedule of Revenues, Expenses and Changes in Fund Net Position
Budget and Actual
Year Ended December 31, 2020

| | Actual Amounts | Budgeted Amounts | Over/(Under) Budget |
|---|---------------------|---------------------|------------------------|
| Operating revenues: | | | |
| Water | \$ 3,045,077 | \$ 3,300,000 | \$ (254,923) |
| Penalties and sundry | 52,313 | 111,000 | (58,687) |
| Total operating revenues | <u>3,097,390</u> | <u>3,411,000</u> | <u>(313,610)</u> |
| Operating expenses: | | | |
| Purchased water | 1,398,344 | 1,500,000 | (101,656) |
| Pumping utilities | 54,859 | 64,000 | (9,141) |
| Maintenance of system | 294,744 | 436,000 | (141,256) |
| Vehicle and equipment | 23,553 | 56,000 | (32,447) |
| Customer accounts | 122,826 | 139,000 | (16,174) |
| Administration | 655,670 | 700,700 | (45,030) |
| Depreciation | 417,101 | 413,483 | 3,618 |
| Total operating expenses | <u>2,967,097</u> | <u>3,309,183</u> | <u>(342,086)</u> |
| Operating income | <u>130,293</u> | <u>101,817</u> | <u>28,476</u> |
| Non-operating revenues (expenses): | | | |
| Investment income | 24,259 | 38,000 | (13,741) |
| Interest expense | (131,855) | (129,410) | (2,445) |
| Gain (loss) on disposal of assets | (6,254) | - | (6,254) |
| Total non-operating revenues (expenses) | <u>(113,850)</u> | <u>(91,410)</u> | <u>(22,440)</u> |
| Income (loss) before contributions | 16,443 | 10,407 | 6,036 |
| Capital contributions | <u>32,210</u> | <u>-</u> | <u>32,210</u> |
| Change in net assets | 48,653 | 10,407 | 38,246 |
| Net position, beginning of year | <u>9,696,426</u> | <u>9,696,426</u> | <u>-</u> |
| Net position, end of year | <u>\$ 9,745,079</u> | <u>\$ 9,706,833</u> | <u>\$ 38,246</u> |

HENDERSON COUNTY WATER DISTRICT
Schedule of System Maintenance, Customer Accounts
and Administrative Expenses
Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|-------------------|-------------------|
| <u>Maintenance of System:</u> | | |
| Maintenance of mains | \$ 173,622 | \$ 214,262 |
| Materials & supplies - transmission | 114,832 | 98,678 |
| Materials & supplies - pumping | 178 | 3,705 |
| Maintenance of tanks | 3,802 | 42,458 |
| Rental - equipment | 2,310 | 444 |
| | <u>\$ 294,744</u> | <u>\$ 359,547</u> |
| <u>Customer accounts:</u> | | |
| Salaries - meter reading | \$ 16,890 | \$ 20,261 |
| Billing and collections - labor and materials | 101,578 | 97,587 |
| Bad debts | 4,078 | 13,212 |
| Collection fees | 280 | (418) |
| | <u>\$ 122,826</u> | <u>\$ 130,642</u> |
| <u>Administration:</u> | | |
| Salaries | \$ 121,575 | \$ 108,851 |
| Vacation and unassigned salaries | 48,014 | 60,853 |
| Commissioner's fees | 7,350 | 10,050 |
| Payroll taxes | 32,269 | 36,586 |
| Employee benefits | 346,868 | 226,996 |
| Office and computer expense | 10,322 | 17,755 |
| Telephone and utilities | 12,835 | 13,590 |
| Advertising | 54 | 71 |
| Professional fees | 17,083 | 16,986 |
| Insurance | 32,704 | 32,704 |
| Regulatory commission | 6,545 | 7,056 |
| Maintenance - office | 12,525 | 12,663 |
| Miscellaneous and general | 7,526 | 18,750 |
| | <u>\$ 655,670</u> | <u>\$ 562,911</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, 2020, 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 22, 2021.

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 [2020-1].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 22, 2021

HENDERSON COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2020

FINDINGS – FINANCIAL STATEMENT AUDIT

2020-1 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.