

HENRY COUNTY WATER DISTRICT #2
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2019 and 2018

**HENRY COUNTY WATER DISTRICT #2
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Henry County Water District #2
Campbellsburg, Kentucky 40011

Report on the Financial Statements

We have audited the accompanying financial statements of Henry County Water District #2 as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Henry County Water District #2's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Henry County Water District #2, as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

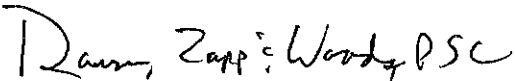
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the Table of Contents on pages 31 through 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2020, on our consideration of the Henry County Water District #2'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 Henry County Water District #2'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 Henry County Water District #2's internal control over financial reporting and compliance.



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

June 26, 2020

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF NET POSITION
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 281,612	\$ 286,356
Accrued Interest Receivable	675	213
Accounts Receivable (Net)	433,865	436,984
Other Receivables	35,207	306
Inventory	111,080	130,659
Prepaid Expense	44,606	42,084
Total Current Assets	<u>\$ 907,045</u>	<u>\$ 896,602</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,662,104	\$ 1,645,057
Accrued Interest Receivable	2,323	730
Capital Assets (Net)	16,601,256	16,963,336
Total Noncurrent Assets	<u>\$ 18,265,683</u>	<u>\$ 18,609,123</u>
Total Assets	<u>\$ 19,172,728</u>	<u>\$ 19,505,725</u>
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 449,538	\$ 439,329
Attributable to Employee OPEB Plan	202,635	139,130
Deferred Loss - Early Debt Retirement	160,929	178,018
Total Deferred Outflows of Resources	<u>\$ 813,102</u>	<u>\$ 756,477</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 73,697	\$ 96,787
Accounts Payable - Construction and Capital Assets	58,551	-
Accrued Compensated Absences	26,427	25,913
Accrued Salaries, Wages & Benefits	26,181	23,893
Accrued Payroll Taxes/Employee Withholding	19,671	20,933
Utility Tax Payable	7,954	7,355
Sales Tax Payable	573	539
Funds Held for Future Lines	1,600	1,600
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	-	4,058
Accrued Interest - Notes Payable	5,427	5,708
Revenue Bonds Payable	458,000	442,000
Notes Payable	196,295	192,904
Total Current Liabilities	<u>\$ 874,376</u>	<u>\$ 821,690</u>
Noncurrent Liabilities:		
Revenue Bonds Payable (Net of Unamortized Bond Discount & Premium of \$3,220 for 2019 and \$3,604 for 2018)	\$ 4,057,220	\$ 4,515,604
Notes Payable	3,525,157	3,721,453
Net Pension Liability	2,359,164	2,012,785
Net OPEB Liability	564,060	586,743
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	111,402	102,775
Total Noncurrent Liabilities	<u>\$ 10,617,003</u>	<u>\$ 10,939,360</u>
Total Liabilities	<u>\$ 11,491,379</u>	<u>\$ 11,761,050</u>
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 119,127	\$ 196,073
Attributable to Employee OPEB Plan	215,162	128,817
Total Deferred Inflows of Resources	<u>\$ 334,289</u>	<u>\$ 324,890</u>
NET POSITION		
Net Investment in Capital Assets	\$ 8,466,962	\$ 8,269,393
Restricted for Capital Projects	365,820	360,184
Restricted for Debt Service	1,149,447	1,160,699
Unrestricted (deficit)	<u>(1,822,067)</u>	<u>(1,614,014)</u>
Total Net Position	<u>\$ 8,160,162</u>	<u>\$ 8,176,262</u>

See accompanying notes to the basic financial statements.

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2019 and 2018

Operating Revenues:	2019	2018
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 3,177,845	\$ 3,154,630
Wholesale Water Charges	247,329	250,971
Total Charges for Services	<u>\$ 3,425,174</u>	<u>\$ 3,405,601</u>
Other Charges and Miscellaneous:		
Reconnect and Disconnect Charges	\$ 33,741	\$ 30,405
Forfeited Discounts	97,045	80,852
Miscellaneous	23,794	23,972
Total Other Charges and Miscellaneous	<u>\$ 154,580</u>	<u>\$ 135,229</u>
Total Operating Revenues	<u>\$ 3,579,754</u>	<u>\$ 3,540,830</u>
Operating Expenses:		
Accounting and Collecting Labor	\$ 137,070	\$ 127,946
Chemicals	34,524	30,665
Commissioner Salaries	31,200	30,000
Continuing Education	6,793	2,925
Contractual Services-Maintenance of Mains/Distribution System	22,777	38,570
Dues	5,424	6,958
Insurance	51,208	48,724
Maintenance of Mains/Distribution System Expenses	372,496	293,741
Miscellaneous	14,719	6,530
Office Supplies and Expense	99,645	91,416
Operating Labor	687,846	653,173
Other Interest Expense	2,822	2,789
Payroll Taxes	72,725	69,117
Professional Services	61,501	60,637
Purchased Power	428,334	411,125
Regulatory Fees	7,447	7,458
Employee Benefits	121,647	122,345
Employee OPEB Expense	49,383	64,910
Retirement Expense	406,566	322,903
Transportation Expense	17,314	20,428
Utilities	28,781	31,894
Depreciation Expense	795,834	773,056
Total Operating Expenses	<u>\$ 3,456,056</u>	<u>\$ 3,217,310</u>
Net Operating Income	<u>\$ 123,698</u>	<u>\$ 323,520</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 28,570	\$ 13,329
Interest Expense	(282,840)	(299,011)
Liquidated Damages Received	-	65,000
Gain/Loss on Sale or Abandonment of Assets	(1,653)	1,032
Total Nonoperating Revenue (Expense)	<u>\$ (255,923)</u>	<u>\$ (219,650)</u>
Income (Loss) Before Contributions	<u>\$ (132,225)</u>	<u>\$ 103,870</u>
Capital Contributions	116,125	47,460
Change in Net Position	<u>\$ (16,100)</u>	<u>\$ 151,330</u>
Net Position - Beginning of Year	<u>\$ 8,176,262</u>	<u>\$ 8,024,932</u>
Net Position - End of Year	<u><u>\$ 8,160,162</u></u>	<u><u>\$ 8,176,262</u></u>

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 3,590,186	\$ 3,541,589
Payments to Suppliers	(1,547,936)	(1,417,933)
Payments to Employees	(853,314)	(809,264)
Other Receipts (Payments)	(7,509)	(18,396)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,181,427</u>	<u>\$ 1,295,996</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	\$ -	\$ 4,402
Purchase of Capital Assets (Including Work In Process)	(366,479)	(814,237)
Principal Paid on Capital Debt	(634,905)	(604,801)
Interest Paid on Capital Debt	(266,415)	(282,182)
Note Proceeds	-	269,235
Liquidated Damages Proceeds	-	65,000
Capital Contributions	72,160	49,060
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,195,639)</u>	<u>\$ (1,313,523)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	\$ 25,804	\$ 13,467
Net Cash Provided (Used) by Investing Activities	<u>\$ 25,804</u>	<u>\$ 13,467</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 11,592	\$ (4,060)
Balances-Beginning of the Year	<u>843,537</u>	<u>847,597</u>
Balances-End of the Year	<u><u>\$ 855,129</u></u>	<u><u>\$ 843,537</u></u>

	Balances Per December 31, 2019 Statement of Net Position	Balances Per December 31, 2019 Statement of Cash Flows
Cash	\$ 82,978	\$ 82,978
Certificates of Deposit	198,634	-
Restricted Cash	772,151	772,151
Restricted Certificates of Deposit	889,953	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,943,716</u>	<u>\$ 855,129</u>

	Balances Per December 31, 2018 Statement of Net Position	Balances Per December 31, 2018 Statement of Cash Flows
Cash	\$ 79,096	\$ 79,096
Certificates of Deposit	207,260	-
Restricted Cash	764,441	764,441
Restricted Certificates of Deposit	880,616	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,931,413</u>	<u>\$ 843,537</u>

(Continued)

HENRY COUNTY WATER DISTRICT #2
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 123,698	\$ 323,520
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	795,834	773,056
Pension & OPEB Expense	259,381	221,295
Change in Assets and Liabilities:		
Receivables, Net	3,119	(26,511)
Other Receivables	(1,314)	17,370
Inventories	19,579	(15,981)
Prepaid Expenses	(2,522)	(10,455)
Accounts Payable	(23,090)	17,554
Accrued Expenses	2,173	(16,227)
Customer Meter Deposits Payable	4,569	12,375
Net Cash Provided by Operating Activities	<u>\$ 1,181,427</u>	<u>\$ 1,295,996</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2019 and 2018, Henry County Water District #2 had \$17,407 and \$0, respectively, of capitalized expenditures for construction in accounts payable on the Statement of Net Position. At December 31, 2019 and 2018, Henry County Water District #2 had \$41,144 and \$0, respectively, of capital assets in accounts payable on the Statement of Net Position.

During 2019, Henry County Water District received a capital contribution of an 8 inch meter from a customer valued at \$10,378.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of entity: Henry County Water District #2 is a rural water company serving approximately 6,300 customers in the Kentucky counties of Henry, Trimble, Carroll, Oldham and Shelby, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of Henry County through its Fiscal Court and began operations in 1965.

In evaluating how to define Henry County Water District #2 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

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

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

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

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

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

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

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

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

- Structures & Improvements	7-60 years
- Distribution System	7-50 years
- Machinery & Equipment	3-25 years

Construction in process represents costs related to various water line extensions being installed by District employees, as well as system improvements. Expenses for maintenance and repairs that do not increase the useful life of the asset are charged to operations as they are incurred.

Inventory: Inventories of supplies are valued at the lower of cost or market on a first-in, first-out basis.

Bond Discount and Premium: Bond discount and premium are amortized over the life of the bond issue.

Debt Issuance Costs: Such costs are expensed as incurred.

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

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

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

Compensated Absences: See Note 11 for the District's policy on vacation and sick pay.

Income Taxes: Henry County Water District #2 is not subject to income taxes.

Contributed Capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues, in the statement of revenues, expenses, and changes in fund net position. Capital contributions include donated property, impact fees, tap on fees and grants. Tap on fees and impact fees of \$72,160 and \$47,460 were received by the District for the years ended December 31, 2019 and 2018, respectively. \$33,587 and \$17,676 from the Kentucky Department of Transportation was received by the District for the year ended December 31, 2019 and 2018, respectively. A customer contributed an 8 inch meter in 2019 and the District recognized \$10,378 of contributed capital from the transaction.

Net Position: Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

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

Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

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

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Henry County Water District #2 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was established with the original bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the outstanding bond issues is as follows:

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

The transfers and/or segregated deposits were sufficient to meet the total obligation outstanding on all issues at December 31, 2019 and 2018. During the calendar year 2019 and 2018 sinking fund transfers were not made consistently.

Upon the issuance of the original bonds, a Depreciation Account was established to provide funds for extraordinary repairs and extensions to the system and/or make up any deficiency in the Bond and Interest Sinking Account. After monthly deposits are made into the Bond and Interest Account, monthly transfers are required to be made to the Depreciation Account. The 1996 Bond Resolution (which was refinanced with the 2003 Bond Issue) required a monthly transfer of \$3,845 to accumulate to a balance of \$461,400. The 2001, 2003, 2010 and 2013 Bond Resolutions ratify and confirm the creation of the 1996 Depreciation Fund. The Kentucky Infrastructure Authority Notes F13-039 and F15-014 require the establishment of a replacement reserve account. The KIA note F13-039 requires an annual transfer of \$7,100 to accumulate to a balance of \$71,000. The KIA note F15-014 requires an annual transfer of \$7,000, to accumulate to a balance of \$70,000. At December 31, 2019 and 2018, the Depreciation Account was fully funded.

NOTE 3 – CASH AND INVESTMENTS

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2019, and 2018 in accordance with District policy, \$1,290,352 and \$1,287,757 respectively, of the District's deposits were covered by federal depository insurance and \$1,214,288 and \$1,172,970, respectively, were collateralized by securities held by the pledging financial institution's agent or trust department in the District's name. Thus, the District had no deposits that were exposed to custodial credit risk.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

At December 31, 2019 and 2018, the District's deposits were as follows:

December 31, 2019

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 471	\$ 471
Time & Savings	2,504,169	1,942,745
Total Deposits	<u>\$ 2,504,640</u>	<u>\$ 1,943,216</u>

December 31, 2018

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 18,471	\$ 18,471
Time & Savings	2,442,257	1,912,442
Total Deposits	<u>\$ 2,460,728</u>	<u>\$ 1,930,913</u>

Reconciliation to Statement of Net Position:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unrestricted Cash, Including Time Deposits	\$ 281,612	\$ 286,356
Restricted Cash, Including Time Deposits	1,662,104	1,645,057
Less Cash on Hand	(500)	(500)
	<u>\$ 1,943,216</u>	<u>\$ 1,930,913</u>

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Debt Service	\$ 540,686	\$ 556,623
Depreciation Account	611,865	609,054
Customer Deposits & Impact Charge Escrow	143,733	119,196
Construction Account	365,820	360,184
Total	<u>\$ 1,662,104</u>	<u>\$ 1,645,057</u>

Restricted receivables consist of the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Interest Receivable	\$ 2,323	\$ 730

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$110,228 and \$84,990 at December 31, 2019 and 2018, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

Estimated unbilled water service revenue of \$134,455 and \$137,843 is included in accounts receivable at December 31, 2019 and 2018, respectively.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 6 – OTHER RECEIVABLES

At December 31, 2019 the District recorded other receivables of \$33,587 from the Kentucky Department of Transportation.

At December 31, 2019 and 2018, respectively, the District recorded other receivables of \$1,620 and \$306 from an employee of Henry County Water District #2.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018, was as follows:

	Balance at January 1, 2019	Additions	Disposals	Balance at December 31, 2019
Land & Land Rights	\$ 192,776	\$ -	\$ -	\$ 192,776
Structures & Improvements	30,260,732	40,028	-	30,300,760
Distribution System	2,804,809	66,698	-	2,871,507
Machinery & Equipment	1,959,452	225,285	(147,089)	2,037,648
Construction in Process	105,846	188,985	(85,588)	209,243
Totals at Historical Cost	<u>\$ 35,323,615</u>	<u>\$ 520,996</u>	<u>\$ (232,677)</u>	<u>\$ 35,611,934</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (15,578,819)	\$ (643,457)	\$ -	\$ (16,222,276)
Distribution System	(1,481,480)	(41,597)	-	(1,523,077)
Machinery & Equipment	(1,299,980)	(110,780)	145,435	(1,265,325)
Total Accumulated Depreciation	<u>\$ (18,360,279)</u>	<u>\$ (795,834)</u>	<u>\$ 145,435</u>	<u>\$ (19,010,678)</u>
Capital Assets, Net	<u>\$ 16,963,336</u>	<u>\$ (274,838)</u>	<u>\$ (87,242)</u>	<u>\$ 16,601,256</u>
	Balance at January 1, 2018	Additions	Disposals	Balance at December 31, 2018
Land & Land Rights	\$ 192,776	\$ -	\$ -	\$ 192,776
Structures & Improvements	29,695,518	565,214	-	30,260,732
Distribution System	2,729,157	75,652	-	2,804,809
Machinery & Equipment	1,793,212	181,791	(15,551)	1,959,452
Construction in Process	338,626	390,600	(623,380)	105,846
Totals at Historical Cost	<u>\$ 34,749,289</u>	<u>\$ 1,213,257</u>	<u>\$ (638,931)</u>	<u>\$ 35,323,615</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (14,940,883)	\$ (637,936)	\$ -	\$ (15,578,819)
Distribution System	(1,441,662)	(39,818)	-	(1,481,480)
Machinery & Equipment	(1,216,859)	(95,302)	12,181	(1,299,980)
Total Accumulated Depreciation	<u>\$ (17,599,404)</u>	<u>\$ (773,056)</u>	<u>\$ 12,181</u>	<u>\$ (18,360,279)</u>
Capital Assets, Net	<u>\$ 17,149,885</u>	<u>\$ 440,201</u>	<u>\$ (626,750)</u>	<u>\$ 16,963,336</u>

Included under the District's capital assets were \$4,998,328 and \$5,079,426 of fully depreciated assets, at December 31, 2019 and 2018, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$795,834 and \$773,056 in 2019 and 2018, respectively.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 8 – CUSTOMER DEPOSITS/ESCROW

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

NOTE 9 – DEFERRED OUTFLOWS OF RESOURCES

In 2013, Henry County Water District adopted GASB 65, *Items Previously Reported as Assets and Liabilities*. Under GASBS No. 65 a consumption of net position by the District that is applicable to a future period is reported as a deferred outflow of resources.

The following is a summary of the District's deferred outflows of resources associated with early debt retirement:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Difference between the reacquisition price and the net carrying amount of the old bond issues refunded.		
2010 Bond Issue	\$ 103,815	\$ 116,210
2013 Bond Issue	57,114	61,808
	<u>\$ 160,929</u>	<u>\$ 178,018</u>

Amounts reported as deferred outflows of resources due to the advance refunding of old bond issues will be amortized over the shorter of the life of the old or new debt and recognized in interest expense as follows:

Year Ended December 31, 2019:	Deferred Outflows of Resources
2020	\$ 17,089
2021	17,089
2022	17,089
2023	17,089
2024	17,089
2025-2029	65,311
2030-2032	10,173
	<u>\$ 160,929</u>
Year Ended December 31, 2018:	Deferred Outflows of Resources
2019	\$ 17,089
2020	17,089
2021	17,089
2022	17,089
2023	17,089
2024-2028	77,706
2029-2032	14,867
	<u>\$ 178,018</u>

The District's deferred outflows of resources attributable to the District's employee pension and OPEB plans are detailed in Note 16.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 10 – LONG-TERM DEBT

As of December 31, 2019 and 2018, the long-term debt payable consisted of the following:

Notes Payable:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Kentucky Infrastructure Authority represents a 20-year loan secured by water revenues. Interest is charged at 1.75% per annum. In addition, a loan servicing fee of 0.25% of the annual outstanding loan balance will be payable to the authority as part of each interest payment. Original loan amount was \$2,222,244. Semi-annual payments with final maturity December 1, 2037.	\$ 2,038,501	\$ 2,134,084
Kentucky Infrastructure Authority represents a 20-year loan secured by water revenues. Interest is charged at 1.75% per annum. In addition, a loan servicing fee of 0.25% of the annual outstanding loan balance will be payable to the authority as part of each interest payment. Original loan amount was \$2,153,041. Semi-annual payments with final maturity December 1, 2034.	1,682,951	1,780,273
Total Notes Payable	<u>\$ 3,721,452</u>	<u>\$ 3,914,357</u>
Current Portion	\$ 196,295	\$ 192,904
Noncurrent Portion	3,525,157	3,721,453
Total Notes Payable	<u>\$ 3,721,452</u>	<u>\$ 3,914,357</u>

Bonds Payable:

2010 B Bond Issue, original issue amount of \$5,663,000, secured by water revenues. Interest is charged 3.20% to 4.33% per annum. Final maturity is January 1, 2028.

\$ 2,902,000	\$ 3,229,000
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Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program) Series 2013B, original issue (District Share) \$2,760,000, secured by water revenues. Interest is charged at the rates of 2.30% - 3.5% per annum. Final maturity is February 1, 2032.

1,610,000	1,725,000
<u>\$ 4,512,000</u>	<u>\$ 4,954,000</u>
\$ 458,000	\$ 442,000
4,054,000	4,512,000
<u>\$ 4,512,000</u>	<u>\$ 4,954,000</u>
3,220	3,604
<u>\$ 4,515,220</u>	<u>\$ 4,957,604</u>

Total Bonds Payable

Current Portion

Noncurrent Portion

Total Bonds Payable

Unamortized Bond Premium

Total Bonds Payable Including

Unamortized Bond Premium and Discount

Accrued Compensated Absences:

Accrued Compensated Absences (All Current)

\$ 26,427	\$ 25,913
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HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 10 – LONG-TERM DEBT (Continued)

Kentucky Infrastructure Authority – Federally Assisted Drinking Water Revolving Loan Fund

On April 6, 2018, Henry County Water District #2 closed a loan in the amount of \$2,222,244 with Kentucky Infrastructure Authority secured by water revenues. Interest is charged at 1.75% per annum. In addition, a loan servicing fee of 0.25% of the annual outstanding balance will be payable to the authority as part of each interest payment. Loan proceeds were used to construct a new 1-million-gallon composite storage tank. Final maturity is December 1, 2037.

Kentucky Infrastructure Authority – Federally Assisted Drinking Water Revolving Loan Fund

On October 6, 2014 Henry County Water District closed a loan in the amount of \$2,153,041 with Kentucky Infrastructure Authority secured by water revenues. Interest is charged at 1.75% per annum. In addition, a loan servicing fee of 0.25% of the annual outstanding loan balance will be payable to the authority as part of each interest payment. Proceeds from this loan were used to install approximately 24,000 linear feet of water main. Final maturity is December 1, 2034.

Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds, Series 2010 B

On May 13, 2010 Henry County Water District entered into a \$5,663,000 bond agreement with Kentucky Rural Water Finance Corporation. The proceeds of the bonds were used to refund the District's then outstanding Refunding Revenue Bonds, Series 1998 (principal, interest, and 1% redemption premium as required). Final maturity on the 2010 issue is January 1, 2028.

Bonds Payable Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2013B

On February 27, 2013, Henry County Water District #2 issued \$2,760,000, Series 2013B Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds with interest rates of 2.30% - 3.55% to advance refund \$370,000 Series 2001D and \$2,333,000 Series 2003 revenue bonds outstanding. The 2001D Series was originally issued at 2.4% to 4.75% per annum. The 2003 Series was issued at 4.06% to 4.81% per annum. The refunded bonds were redeemed on February 27, 2013 at a price equal to 100% of the principal amounts of the refunded bonds outstanding at that date. Bond issuance costs were \$61,389 which were expensed when incurred.

As a result of the advance refunding, the District reduced its total debt service requirements by \$476,674, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$356,023. Final maturity on the 2013 issue is February 1, 2032.

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

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

Changes in 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

	Balance at January 1, 2019	Additions	Retirements	Balance at December 31, 2019	Current Portion
Notes Payable	\$ 3,914,357	\$ -	\$ 192,905	\$ 3,721,452	\$ 196,295
Bonds Payable	4,954,000	-	442,000	4,512,000	458,000
Accrued Compensated Absences	25,913	48,259	47,745	26,427	26,427
Total Long-Term Debt	<u>\$ 8,894,270</u>	<u>\$ 48,259</u>	<u>\$ 682,650</u>	<u>\$ 8,259,879</u>	<u>\$ 680,722</u>

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 10 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt (Continued)

December 31, 2018

	Balance at January 1, 2018	Additions	Retirements	Balance at December 31, 2018	Current Portion
Notes Payable	\$ 3,828,923	\$ 269,235	\$ 183,801	\$ 3,914,357	\$ 192,904
Bonds Payable	5,375,000	-	421,000	4,954,000	442,000
Accrued Compensated Absences	26,967	7,848	8,902	25,913	25,913
Total Long-Term Debt	\$ 9,230,890	\$ 277,083	\$ 613,703	\$ 8,894,270	\$ 660,817

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

	Note Payable	Note Payable Interest	Service Fee	Bonds	Bond Interest	Trustee Fees	Total Principal, Interest, Trustee Fee and Servicing Fee
2020	\$ 196,295	\$ 64,270	\$ 9,182	\$ 458,000	\$ 173,020	\$ 900	\$ 901,667
2021	199,746	60,821	8,689	480,000	155,394	900	905,550
2022	203,257	57,309	8,187	496,000	136,914	900	902,567
2023	206,829	53,737	7,677	518,000	117,762	900	904,905
2024	210,465	50,102	7,158	543,000	97,600	900	909,225
2025-2029	1,109,129	193,702	27,672	1,712,000	204,069	3,600	3,250,172
2030-2034	1,210,089	92,738	13,247	305,000	16,142	900	1,638,116
2035-2037	385,642	11,896	1,700	-	-	-	399,238
	<u>\$ 3,721,452</u>	<u>\$ 584,575</u>	<u>\$ 83,512</u>	<u>\$ 4,512,000</u>	<u>\$ 900,901</u>	<u>\$ 9,000</u>	<u>\$ 9,811,440</u>

The annual requirements for all long-term debt outstanding at December 31, 2018, are as follows:

	Note Payable	Note Payable Interest	Service Fee	Bonds	Bond Interest	Trustee Fees	Total Principal, Interest, Trustee Fee and Servicing Fee
2019	\$ 192,904	\$ 67,661	\$ 9,666	\$ 442,000	\$ 188,189	\$ 900	\$ 901,320
2020	196,295	64,270	9,182	458,000	173,020	900	901,667
2021	199,746	60,821	8,689	480,000	155,394	900	905,550
2022	203,257	57,309	8,187	496,000	136,914	900	902,567
2023	206,829	53,737	7,677	518,000	117,762	900	904,905
2024-2028	1,089,971	212,860	30,409	2,110,000	286,244	4,050	3,733,534
2029-2033	1,189,188	113,641	16,234	450,000	31,567	1,350	1,801,980
2034-2037	636,167	21,937	3,134	-	-	-	661,238
	<u>\$ 3,914,357</u>	<u>\$ 652,236</u>	<u>\$ 93,178</u>	<u>\$ 4,954,000</u>	<u>\$ 1,089,090</u>	<u>\$ 9,900</u>	<u>\$ 10,712,761</u>

NOTE 11 – COMPENSATED ABSENCES

Vacation and sick pay are considered expenditures in the year earned.

Vacation Days

All full time employees earn one week of vacation time at the beginning of the first whole calendar year of employment and one additional day per year up to the maximum of four weeks. Only two weeks of unused vacation time may be carried over to the next year. If there is still any vacation leave remaining, the employee will be paid straight time for that portion not carried over in January of the following year. If an employee has accumulated vacation leave at time of retirement or resigning, he may have the option to use the leave time or receive payment at his/her regular rate. A terminated employee will be compensated for any accrued vacation time.

At December 31, 2019 and 2018, a liability for accrued vacation was recorded in the amount of \$26,427 and \$25,913, respectively.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 11 – COMPENSATED ABSENCES (Continued)

Sick and Personal Days

All full time employees earn 1 sick day per month. An employee may carry over any sick leave accrued during the year that was not used, without limit. If and when the employee retires or resigns, there will be no pay for unused sick leave. Full time personnel earn 4 personal days per year with no carry-over or pay for any unused time.

At December 31, 2019 and 2018, the District had an unrecorded sick pay liability to its employees of \$137,208 and \$129,013, respectively. The estimated liabilities include required salary related payments.

NOTE 12 – FUND EQUITY- RESTRICTED NET POSITION

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Restricted for Capital Projects:		
Monies Reserved for Future System Improvements	\$ 365,820	\$ 360,184
Total Restricted for Capital Projects	<u>\$ 365,820</u>	<u>\$ 360,184</u>
 Restricted for Debt Service:		
2010 and 2013 Bond Issues & KIA Notes Payable		
Cash	\$ 1,152,551	\$ 1,165,677
Add: Accrued Interest Receivable	2,323	730
Less: Accrued Interest Payable	(5,427)	(5,708)
Total Restricted for Debt Service	<u>\$ 1,149,447</u>	<u>\$ 1,160,699</u>

NOTE 13 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$25,238 and \$10,791 at December 31, 2019 and 2018, respectively.

NOTE 14 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2019 and 2018 was \$285,662 and \$301,800, respectively.

NOTE 15 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the purchase of commercial insurance. The District is also subject to the risks associated with employee injury. These risks are covered through premiums paid to Kentucky Employers' Mutual Insurance, a commercial insurance company.

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN)

The Henry County Water District #2 participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees.

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

- Kentucky Retirement Systems Audit Report – 2019
https://apps.auditor.ky.gov/Public/Audit_Reports/Archive/2018KRSfinancialaudit.pdf
- KRS Schedules of Employer Allocations & Pension Amount by Employer for the Fiscal Year Ended June 30, 2019
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2019%20GASB%2068%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- KRS Schedules of Employer Allocations & OPEB Amounts by Employer for the Fiscal Year Ended June 30, 2019
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2019%20GASB%2075%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- Kentucky CERS GASB 68 Accounting & Financial Reporting for Pensions as of June 30, 2019 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2019%20GASB%2068%20Actuary%20Report%20CERS.pdf>
- Kentucky CERS GASB 75 Accounting & Financial Reporting for Postemployment Benefits Other Than Pensions as of June 30, 2019 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2019%20GASB%2075%20Actuary%20Report%20CERS.pdf>

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

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

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

- Shorter-Term (5 years and less): The returns of the particular asset classes of the managed funds of the Systems, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.
- Medium-Term (5 to 30 years): The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- Longer-Term: The total assets of the Systems should achieve a return of 6.25% for CERS pension and insurance plans. This is measured over 30 to 40 years which exceeds the actuarially required rate of return while also exceeding the return achieved by its total fund benchmark.

Target Asset Allocation – Pension and Insurance as of June 30, 2019 and 2018:

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

The long-term expected real rate of return was 3.89% and 6.09% at June 30, 2019 and 2018.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

	Target Asset Allocation		Long-Term Expected Rate of Return	
	2019	2018	2019	2018
Combined Equity	52.50%	35.00%	2.60%-4.80%	4.50% - 7.25%
Combined Fixed Income	13.50%	24.00%	1.35%	3.75% - 8.50%
Private Equity	10.00%	10.00%	6.65%	6.50%
Absolute Return	-	10.00%	-	5.00%
Real Return	15.00%	10.00%	4.10%	7.00%
Real Estate	5.00%	5.00%	4.85%	9.00%
Global Bonds	-	4.00%	-	3.00%
Opportunistic	3.00%	-	2.97%	-
Cash	1.00%	2.00%	0.20%	1.50%
	<u>100.00%</u>	<u>100.00%</u>	<u>3.89%</u>	<u>6.09%</u>

- The investment portfolio for the Pension Funds reported a net return of 5.83% for the fiscal year 2019 compared to 8.57% return for fiscal year 2018. The investment portfolio for the Insurance Fund reported a net return of 5.67% for the fiscal year, which was lower than fiscal year 2018 net return of 9.05%. The investment return was slightly below the 6.25% assumed rate of return.

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

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

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

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings for Tier 1 and Tier 2. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after earning a minimum months of service credit (120

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

months for Tier 2 and 180 months for Tier 3. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

There were no changes in benefit terms during the year ended June 30, 2019.

Contributions - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a 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 and 2018 participating non-hazardous employers contributed 21.48% and 19.18%, respectively, 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 28.05% and 19.18%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

Non-hazardous employer contributions for the year ended June 30, 2019, of 21.48% were allocated 16.22% to CERS's pension fund and 5.26% to CERS's (health insurance). Non-hazardous employer contributions for the year ended June 30, 2018, of 19.18% were allocated 14.48% to CERS's pension fund and 4.70% to CERS' OPEB (health insurance) fund, respectively.

For the fiscal years ended June 30, 2019 and 2018, plan members who began participating prior to September 1, 2008, were required to contribute 5% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. Plan members who began participating on, or after, September 1, 2008 and before January 1, 2014, were required to contribute a total of 6% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%.

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

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

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

The Board adopted new actuarial assumptions after the June 30, 2018, valuation. These assumptions are documented in the report titled *Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ended June 30, 2018*.

Per the Kentucky Retirement System's 2019 Comprehensive Annual Financial Report, 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 as follows:

Item	CERS June 30, 2019 Non-Hazardous	CERS June 30, 2018 Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2017	June 30, 2016
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Amortization Period:	26 Years, Closed	27 Years, Closed
Investment Return:	6.25%	7.50%
Inflation:	2.30%	3.25%
Salary Increases:	3.30% to 11.55%, varies by service	3.05%
Payroll Growth:	2.00%	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

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

For financial reporting, the actuarial valuation as of June 30, 2018 was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

The Board of Trustees adopted new actuarial assumptions since 2018. The actuarial assumptions are:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Inflation	2.30%	2.30%
Salary Increases	3.30% - 10.30% varies by service	3.05%
Investment Rate of Return	6.25%	6.25%

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

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

The mortality tables(s) used in the determination the total pension liability at June 30, 2018 were as follows. The mortality table used for active members was 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 was the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) was used for the period after disability retirement.

Discount Rate

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

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous for the year ended June 30, 2018 assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability.

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

At December 31, 2019 and 2018 the District reported a liability of \$2,359,164 and \$2,012,785, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2019, and 2018 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, and 2018 the District's proportion was 0.033544 and 0.033049 percent, respectively, which is an increase of 0.000495% and decrease of 0.001072% for the years ended June 30, 2019 and June 30, 2018, respectively.

The District's total payroll for the calendar year ended December 31, 2019 was \$918,245. Contributions to the CERS were based on \$880,868 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2019 were \$151,695.

The District's total payroll for the calendar year ended December 31, 2018 was \$866,880. Contributions to the CERS were based on \$836,880 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2018 were \$126,841.

All contributions were made as required.

The District's contribution for the County Employees' Retirement System's year(s) ended June 30, 2019, and 2018 was 0.033544 and 0.033049 percent, respectively, of the System's total contribution requirements for all employers.

For the years ended December 31, 2019, and December 31, 2018, the District recognized pension expense of \$406,566 and \$322,903, respectively. At December 31, 2019 and 2018 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	December 31, 2019		December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 60,237	\$ 9,968	\$ 65,651	\$ 29,463
Change in Assumptions	238,774	-	196,708	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	22,788	25,842	15,734	48,880
Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	45,287	83,317	93,596	117,730
District Contributions Made Subsequent to the NPL Measurement Date	82,452	-	67,640	-
Total	\$ 449,538	\$ 119,127	\$ 439,329	\$ 196,073

\$82,452 and \$67,640 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2020 and 2019, respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

Year Ended December 31, 2019:		Increase (Decrease) to Pension Expense
	2020	\$ 155,582
	2021	61,994
	2022	27,683
	2023	2,700
		<u>\$ 247,959</u>
Year Ended December 31, 2018:		Increase (Decrease) to Pension Expense
	2019	\$ 154,848
	2020	61,799
	2021	(30,229)
	2022	(10,802)
		<u>\$ 175,616</u>

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

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2019 and 2018], calculated using the discount rates of 6.25% and 6.25% for the years ended June 30, 2019 and 2018, respectively, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
As of June 30, 2019			
Net Pension Liability	\$ 8,796,343,903	\$ 7,033,044,552	\$ 5,563,351,626
District's Proportionate Share	2,950,646	2,359,164	1,866,171
As of June 30, 2018			
Net Pension Liability	\$ 7,667,062,949	\$ 6,090,304,793	\$ 4,769,257,576
District's Proportionate Share	2,533,888	2,012,785	1,576,192

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

Payable to the Pension Plan

At December 31, 2019 and 2018, the District reported a payable of \$13,543 and \$13,812 for the outstanding amount of contributions required for the years then ended. The amount represents the employee withholding and employer match for the last month of the years then ended. The total 2019 and 2018 payable (Pension and OPEB) was reduced by \$8,047 and \$2,357, respectively, due back from Kentucky Retirement Systems for an overpayment by the District.

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

OPEB PLAN

Insurance (OPEB) Plan Description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible

Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. A portion of the insurance premiums are withheld from benefit payments for members including those of the CERS Non-Hazardous system.

Contributions

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

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

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

For the fiscal years ended June 30, 2019 and 2018, plan members who began on, or after, September 1, 2008 (classified in the Tier 2 or Tier 3 structure of benefits) were required to contribute 1% of their annual creditable compensation to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E), which is considered an OPEB asset.

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

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

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

Per the GASB Statement No. 75, *Report for Postemployment Benefits Other than Pensions* for the Kentucky County Employees Retirement System prepared as of June 30, 2019 and 2018, the actuarially determined contribution rates effective for fiscal year ending June 30, 2019 and 2018 are calculated based on the actuarial methods and assumptions as follows:

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

Item	CERS June 30, 2019 Non-Hazardous	CERS June 30, 2018 Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2017	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Remaining Amortization Period:	26 Years, Closed	27 Years, Closed
Payroll Growth:	2.00%	4.00%, average
Investment Return:	6.25%	7.50%
Inflation:	2.30%	3.25%
Salary Increases:	3.30% - 11.55% varies by service	4.00%, average
Mortality:	The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.	The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.
<i>Healthcare Trend Rates:</i>		
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.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.0% over a period of 2 years.
Phase-In Provision	Board Certified Rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.	

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

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

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

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

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled *Kentucky Retirement Systems 2018 Actuarial Experience Study dated June 30, 2018*.

The actuarial assumption used are:

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and Net OPEB Liability (Continued)

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

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

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Discount Rate

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

The projection of cash flows used to determine the June 30, 2018 discount rate of 5.85% for CERS Non-hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018.

The fully-insured premiums KRS pays for the CERS Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. The liability associated with this implicit subsidy is included in the calculation of the total OPEB liability at June 30, 2018.

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

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

At December 31, 2019 and 2018 the District reported a liability of \$564,060 and \$586,743, respectively.

The District's total payroll for the calendar year ended December 31, 2019 was \$918,245 contributions were based on \$880,868 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2019 were \$49,226.

The District's total payroll for the calendar year ended December 31, 2018 was \$868,880. Contributions were based on \$836,880 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2018 were \$41,160.

All contributions were made as required.

The allocation of the employers' proportionate share of the Net OPEB Liability and OPEB expense was determined using the employer's actual contributions for the fiscal year ending June 30, 2019.

The District's contribution for the County Employee's Retirement System's (Insurance Plan) for the years ended June 30, 2019 and 2018 was 0.033536 percent and 0.033047 percent, respectively, of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the years ended June 30, 2019 and 2018 was \$9,809 and \$7,003, respectively.

For the years ended December 31, 2019 and 2018, the District recognized OPEB expense of \$49,383 and \$64,910 respectively. At December 31, 2019 and 2018 the District reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

	December 31, 2019		December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 170,190	\$ -	\$ 68,377
Change in Assumptions	166,911	1,116	117,181	1,356
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	5,253	15,088	-	18,669
Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments	3,715	28,768	-	40,415
District Contributions Made Subsequent to the Net OPEB Measurement Date	26,756	-	21,949	-
Total	\$ 202,635	\$ 215,162	\$ 139,130	\$ 128,817

\$26,756 and \$21,949 reported as deferred outflows of resources related to OPEB arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the years ended December 31, 2020 and 2019 respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources and deferred inflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

		Increase (Decrease) to OPEB Expense
Year Ended December 31, 2019:		
	2020	\$ (6,781)
	2021	(6,781)
	2022	1,184
	2023	(14,069)
	2024	(11,152)
	Thereafter	(1,684)
		\$ (39,283)
		Increase (Decrease) to OPEB Expense
Year Ended December 31, 2018:		
	2019	\$ (1,492)
	2020	(1,492)
	2021	(1,492)
	2022	6,358
	2023	(8,670)
	Thereafter	(4,848)
		\$ (11,636)

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 16 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Payable to the OPEB Health Insurance Plan

At December 31, 2019 and 2018, the District reported a payable of \$4,392 and \$4,479, respectively for the outstanding amount of contributions required for the years then ended. This amount represents the employee withholding and employer match for the last month of the years then ended.

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

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2019, calculated using the single discount rate of 5.68% as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2019	1% Decrease [4.68%]	Current Discount [5.68%]	1% Increase [6.68%]
Net OPEB Liability	\$ 2,253,127,713	\$ 1,681,954,950	\$ 1,211,346,586
District's Proportionate Share	755,609	564,060	406,237

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

As of June 30, 2019	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 1,250,878,480	\$ 1,681,954,950	\$ 2,204,686,275
District's Proportionate Share	419,495	564,060	739,364

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2018, calculated using the single discount rates of 5.85% for the year ended June 30, 2018 as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2018	1% Decrease [4.85%]	Current Discount [5.85%]	1% Increase [6.85%]
Net OPEB Liability	\$ 2,306,064,041	\$ 1,775,480,122	\$ 1,323,519,582
District's Proportionate Share	762,085	586,743	437,384

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2018, calculated using the healthcare cost trend rate for the year ended June 30, 2018 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2018	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 1,321,862,520	\$ 1,775,480,122	\$ 2,310,164,647
District's Proportionate Share	436,836	586,743	763,440

HENRY COUNTY WATER DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 17 – DEFICIT NET POSITION

An unrestricted net position deficit of \$1,822,067 and \$1,614,014 existed at December 31, 2019 and 2018, respectively. The deficit resulted from the recognition of net pension liability, net OPEB liability, and related deferred outflows of resources and deferred inflows of resources due to the implementation of GASB Statements No. 68 and 75.

Unrestricted net position was reduced by \$259,381 and \$221,295 for the years ended December 31, 2019 and 2018, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability and Net OPEB Liability. The accounts affected were as follows:

	2019	2018
Increase (Decrease) in Deferred Outflows of Resources	\$ 73,714	\$ (232,794)
(Increase) Decrease in Deferred Inflows of Resources	(9,399)	(72,129)
(Increase) Decrease in Net Pension Liability	(346,379)	(15,578)
(Increase) Decrease in Net OPEB Liability	22,683	99,206
Net Decrease in Unrestricted Net Position	<u>\$ (259,381)</u>	<u>\$ (221,295)</u>

NOTE 18 – ECONOMIC DEPENDENCY

Henry County Water District #2 provides water services to residential and commercial customers in the Kentucky counties of Henry, Trimble, Carroll, Oldham and Shelby. The District also supplies water for resale to the cities of Eminence and New Castle located in Henry County. It should be noted that 7.17% and 7.35% of the total water charges for services revenue was received from these cities for the years ended December 31, 2019 and 2018, respectively. Also, the District supplies water for resale to West Carroll Water District at the same wholesale rate.

NOTE 19 – FUNDS HELD FOR FUTURE LINES AND CONTRIBUTED CAPITAL

The District collects funds from developers for their allocable cost of line extensions. The amount is calculated based on the size of the line and the number of estimated hook-ups. As others pay to hook-up to the line, portions of these funds are refunded to the developer. Once a line has been completed, the developer's cost of the line is recorded as capital contributions from customers. The District held \$1,600 for future lines at both December 31, 2019 and 2018.

NOTE 20 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

During the 2018 Kentucky Legislature Session, House bill 362 passed which caps CERS Employer Contribution rate increases up to 12% per year over the prior fiscal year for the period July 1, 2018 to June 30, 2028. The CERS Employer rates, beginning July 1, 2019 and 2020 have been set at 24.06% and 24.06% respectively.

NOTE 21 – NONOPERATING REVENUES

Liquidating damages of \$65,000 were recognized by the District in 2018 due to a delay in achieving substantial completion by a construction contractor.

NOTE 22 – SUBSEQUENT EVENTS

In March, 2020 significant steps were taken by the federal and state governments to limit the effect of the COVID-19 virus. The immediate and long-term impact that such decisions may leave on the financial position of the District is unknown at this time.

HENRY COUNTY WATER DISTRICT #2

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

	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset) %	0.033544%	0.033049%	0.034121%	0.03485%	0.031399%	0.033750%
District's proportionate share of the net pension liability (asset)	\$ 2,359,164	\$ 2,012,785	\$ 1,997,207	\$ 1,715,920	\$ 1,350,032	\$ 1,095,000
District's covered payroll (Calendar Year)	\$ 880,868	\$ 836,880	\$ 787,500	\$ 851,267	\$ 843,338	\$ 766,921
District's proportionate share of the net pension liability (asset) as a percentage of its of its covered payroll	267.82%	240.52%	253.61%	201.57%	160.08%	142.78%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.3%	55.5%	59.97%	62.60%

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

District payroll is reported for its' covered calendar years ending December 31, 2014 through 2019.

GASB 88 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

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

The Board of Trustees adopted new actuarial assumptions since June 30, 2018, as documented in the report titled *Kentucky Retirement Systems 2018 Actuarial Experience Study for the period ending June 30, 2018*. Actuarial Methods and Assumptions for Determining Net Pension Liability:

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

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

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

The assumed rates of retirement, withdrawal, and disability were based on an actuarial valuation performed as of June 30, 2018.

HENRY COUNTY WATER DISTRICT #2
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM

Years Ended December 31

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 151,695	\$ 126,841	\$ 110,735	\$ 114,120	\$ 109,232
Contributions in relation to the contractually required contributions	151,695	126,841	110,735	114,120	109,232
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (calendar year)	\$ 880,868	\$ 836,880	\$ 787,500	\$ 851,267	\$ 843,338
Contributions as a percentage of covered payroll	17.22%	15.16%	14.06%	13.41%	12.95%

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

HENRY COUNTY WATER DISTRICT #2

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

Years Ended December 31

	2019	2018	2017
District's proportion of the net OPEB liability (asset) %	0.033536%	0.033047%	0.034121%
District's proportionate share of the net OPEB liability (asset)	\$ 564,060	\$ 586,743	\$ 685,949
District's covered payroll (Calendar Year)	\$ 880,868	\$ 836,880	\$ 787,500
District's proportionate share of the net OPEB liability (asset) as a percentage of its of its covered payroll	64.03%	70.11%	87.10%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.4%

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

District covered payroll is reported for its calendar year.

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

The Board of Trustees adopted new actuarial assumptions since June 30, 2018, as documented in the report titled, *Kentucky Retirement Systems 2018 Actuarial Experience Study for the period ending June 30, 2018*.

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

Actuarial Methods and Assumptions for Determining Net OPEB Liability:

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

HENRY COUNTY WATER DISTRICT #2

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

Years Ended December 31

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually (Employer) required contributions	\$ 49,226	\$ 41,160	\$ 37,547	\$ 38,695	\$ 37,037
Contributions in relation to the contractually required contributions	49,226	41,160	37,547	38,695	37,037
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 880,868	\$ 836,880	\$ 787,500	\$ 851,267	\$ 843,338
Contributions as a percentage of covered payroll	5.59%	4.92%	4.78%	4.55%	4.39%

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

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

RAISOR, ZAPP & WOODS, PSC

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

To the Commissioners of the
Henry County Water District #2
Campbellsburg, KY 40011

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Henry County Water District #2 as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Henry County Water District #2's basic financial statements, and have issued our report thereon dated June 26, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Henry County Water District #2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Henry County Water District #2's internal control. Accordingly, we do not express an opinion on the effectiveness of Henry County Water District #2's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Items 2019-001 and 2019-002 that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

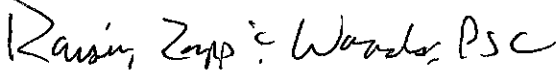
As part of obtaining reasonable assurance about whether Henry County Water District #2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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*.

HENRY COUNTY WATER DISTRICT #2'S RESPONSE TO FINDINGS

Henry County Water District #2's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Henry County Water District #2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

June 26, 2020

**HENRY COUNTY WATER DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2019**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Henry County Water District #2 were prepared in accordance with GAAP.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2019-001 and 2019-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Henry County Water District #2, were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2019-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CRITERIA:

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

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. General ledger accounts are not reconciled consistently. Supporting documentation was not maintained for all transactions. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2018 as Item 2018-001.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

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

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes.

VIEWS of RESPONSIBLE OFFICIALS:

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel. Additionally, the Board intends to address this issue through enhanced management oversight and checking procedures of the District's day-to-day operations.

**HENRY COUNTY WATER DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2019**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2019-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CRITERIA:

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

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2018 as Item 2018-002.

CAUSE:

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

EFFECT:

Management engaged the auditor's assistance to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

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

VIEWS of RESPONSIBLE OFFICIALS:

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

COMPLIANCE AND OTHER MATTERS

None