

JONATHAN CREEK WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Jonathan Creek Water District
Benton, Kentucky

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Jonathan Creek Water District as of December 31, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedule of pension contributions, schedule of other postemployment benefits contributions, schedule of proportionate share of net pension liability, and schedule of proportionate share of other postemployment benefits liability on pages 3 through 7 and 31 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 6, 2021, on our consideration of the Jonathan Creek Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Eddyville, Kentucky
July 6, 2021

**JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020
(UNAUDITED)**

The Jonathan Creek Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the years ended December 31, 2020. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

FINANCIAL HIGHLIGHTS

- The District's total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources as of December 31, 2020, by \$2,571,483 (Net Position).
- The District's total net position increased by \$131,025 during the year compared to a \$47,469 decrease in the prior year.
- The District's operating revenues decreased by \$2,809 over the prior year from \$957,017 to \$954,208.
- The District's operating expenses decreased by \$173,647 over the prior year from \$1,092,859 to \$919,212.

OVERVIEW OF THE FINANCIAL STATEMENTS

Jonathan Creek Water District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net position. The statement of net position presents the financial position of the District. It presents information on the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 8.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 9 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects the changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 10.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 11-29 of this report.

Required Supplementary Information. In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 31-40.

**OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND
RESULTS OF OPERATIONS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,571,483 as of December 31, 2020.

The District's overall financial position and operations for the past two years are summarized as follows:

**JONATHAN CREEK WATER DISTRICT'S
NET POSITION**

Assets	2020	2019
Current and other assets	\$ 330,483	\$ 258,659
Capital assets	3,650,172	3,677,487
Total Assets	3,980,655	3,936,146
Deferred Outflows of Resources	255,635	319,149
Liabilities		
Other liabilities	198,510	176,881
Current portion of long-term debt	151,196	189,648
Long-term liabilities	1,068,135	1,280,084
Total Liabilities	1,417,841	1,646,613
Deferred Inflows of Resources	246,966	168,224
Net Position		
Net investment in capital assets	3,353,602	3,233,635
Restricted	42,330	27,047
Unrestricted	(824,449)	(820,224)
Total Net Position	\$ 2,571,483	\$ 2,440,458

The District's investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping and infrastructure), less any debt used to acquire those assets that is still outstanding is \$3,353,602. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's unrestricted net assets as of December 31, 2020 is a negative \$824,449.

Analysis of the District's Operations – Overall the District had a increase in net position of \$131,025.

The following table provides a summary of the District's operations for the year ended December 31, 2020 and 2019.

**JONATHAN CREEK WATER DISTRICT
CHANGES IN NET POSITION**

	2020	2019
Revenues		
Operating revenues	\$ 954,208	\$ 957,017
Investment income	453	287
Capital grants and contributions	108,474	104,586
Total revenues	1,063,135	1,061,890
Expenses		
Transmission and distribution expenses	353,256	380,326
Administrative and general expenses	257,799	410,279
Depreciation	175,959	180,602
Pumping expenses	88,065	79,605
Payroll and other taxes	23,968	26,591
Water treatment expenses	20,165	13,049
Interest expenses	12,898	16,500
Bad debt expense	-	2,407
Total Expenses	932,110	1,109,359
Change in net position	131,025	(47,469)
Net position - January 1	2,440,458	2,487,927
Net position - December 31	\$ 2,571,483	\$ 2,440,458

GENERAL FUND BUDGETARY HIGHLIGHTS

The original and final budget passed by the board anticipated an increase in the fund balance of \$86,596. The budgeted operating revenue received exceeded actual revenue by \$145,792. Budgeted expenditures exceeded actual expenditures by \$129,192. The budgetary figures and actual amounts are reported in the supplementary information on page 32 .

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District's investment in capital assets for business-type activities as of December 31, 2020, amounts to \$3,650,172 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure.

	2020	2019
Business-type activities		
Capital assets, not being depreciated		
Land	\$ 10,000	\$ 10,000
Construction in progress	-	65,488
Total capital assets, not being depreciated	10,000	75,488
Capital assets, being depreciated		
Transmission and distribution	2,653,290	2,549,373
Distribution reservoirs	65,172	68,778
Transportation equipment	5,950	17,707
Land rights	44	168
Commercial equipment	39,329	50,841
Hydrants	2,414	4,041
Meters and meter installations	309,841	287,846
Pumping equipment	116,565	126,560
Water treatment equipment	9,410	18,228
Tools and shop equipment	2,884	4,433
Office furniture and equipment	934	1,113
Miscellaneous equipment	14,382	17,360
Power equipment	268,725	299,368
Communication equipment	-	-
Structures and improvements	27,159	28,199
Wells and springs	107,632	111,045
Organization	-	-
Services	16,441	16,939
Total capital assets, being depreciated	3,640,172	3,601,999
Business-type activities capital assets, net	\$ 3,650,172	\$ 3,677,487

During the year ended December 31, 2020, the District placed in service assets totaling \$120,497. Of this amount \$65,488 was recognized in the prior year as work in process related to the Slickback Road project. \$78,939 in new lines and replacements lines were recognized as contributed capital from the Marshall County Fiscal Court.

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-term and other debt

At the end of the current year, the Jonathan Creek Water District had total debt of \$296,569. Long-term debt at December 31, 2020, was as follows:

	<u>2020</u>	<u>2019</u>
<u>Line of Credit</u>		
CFSB Line of Credit	\$ 93,897	\$ 83,140
<u>Long-Term Debt</u>		
CFSB Loan	85,476	180,180
<u>Capital Lease</u>		
Ditch Witch	<u>117,196</u>	<u>180,532</u>
Total Debt	<u>\$ 296,569</u>	<u>\$ 443,852</u>

Interest expense of \$12,898 was incurred during the year ended December 31, 2020.

Additional information on the District's long-term debt can be found in Note 7 of this report.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Jonathan Creek Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to David Lovett, Superintendent, Jonathan Creek Water District, 7564 US Highway 68 E, Benton, Kentucky 42025.

Jonathan Creek Water District
Statement of Net Position
December 31, 2020

Assets

Current Assets

Cash equivalents	\$ 39,033
Customer accounts receivable (less allowance for uncollectible accounts of \$9,766)	59,520
Unbilled revenue	66,081
Inventory	98,983
Prepayments	24,536
Restricted assets	
Cash equivalents	42,330
Total current assets	<u>330,483</u>

Noncurrent Assets

Capital assets, net of depreciation	<u>3,650,172</u>
Total Assets	<u>3,980,655</u>

Deferred Outflows of Resources

Related to pensions and other postemployment benefits	<u>255,635</u>
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Liabilities

Current Liabilities

Accounts payable	12,318
Accrued liabilities	25,215
Customers' deposits	67,080
Line of credit	93,897
Long-term debt due in one year	<u>151,196</u>
Total current liabilities	<u>349,706</u>

Noncurrent Liabilities

Long-term debt due after one year	51,477
Net pension and other postemployment benefit liabilities	<u>1,016,658</u>
Total noncurrent liabilities	<u>1,068,135</u>
Total Liabilities	<u>1,417,841</u>

Deferred Inflows of Resources

Related to pensions and other postemployment benefits	<u>246,966</u>
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Net Position

Net investment in capital assets	3,353,602
Restricted for	
Customer deposits	42,330
Unrestricted	<u>(824,449)</u>
Total Net Position	<u>\$ 2,571,483</u>

See accompanying notes to financial statements.

Jonathan Creek Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2020

Operating Revenue

Water revenues	\$ 948,001
Other	<u>6,207</u>
Total Operating Revenues	<u>954,208</u>

Operating Expenses

Administrative and general expenses	257,799
Transmission and distribution expenses	353,256
Depreciation	175,959
Pumping expenses	88,065
Payroll and other taxes	23,968
Water treatment expenses	<u>20,165</u>
Total Operating Expenses	<u>919,212</u>

Operating Income (Loss)

34,996

Nonoperating Revenues (Expenses)

Investment income	453
Interest on debt	<u>(12,898)</u>
Total Nonoperating Revenue (Expenses)	<u>(12,445)</u>

Net Income Before Capital Contributions

22,551

Capital Contributions

Fiscal Court funds	78,939
Tap-on fees	<u>29,535</u>
Total Capital Contributions	<u>108,474</u>

Change in Net Position

131,025

Net Position-Beginning of Year

2,440,458

Net Position-End of Year

\$ 2,571,483

Jonathan Creek Water District
Statement of Cash Flows
For the Year Ended December 31, 2020

Cash Flows from Operating Activities

Cash received from customers	\$ 943,302
Cash payments to suppliers for goods and services	(278,024)
Cash payments to employees for services	<u>(440,473)</u>
Net Cash Provided By Operating Activities	<u>224,805</u>

Cash Flows From Capital and Related Financing Activities

Proceeds from capital debt	13,936
Contributed capital	29,535
Interest paid on debt	(12,898)
Principal paid on capital debt	(161,219)
Acquisition of property, plant, and equipment	<u>(69,705)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(200,351)</u>

Cash Flows From Investing Activities

Income received on investments	<u>453</u>
Net Cash Provided By Investing Activities	<u>453</u>

Net Increase (Decrease) in Cash Equivalents

24,907

Cash Equivalents-Beginning of Year

56,456

Cash Equivalents-End of Year

\$ 81,363

Reconciliation of Operating Income to Net Cash Provided

By Operating Activities

Operating Income (Loss)	\$ 34,996
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	175,959
Change in assets and liabilities	
Accounts receivable	(22,181)
Inventory	(18,688)
Prepayments	(6,088)
Deferred outflows of resources	63,515
Accounts payable	(1,911)
Customer deposits	11,275
Accrued liabilities	1,548
Deferred pension and OPEB liabilities	(92,362)
Deferred inflows of pensions	<u>78,742</u>
Net Cash Provided By Operating Activities	<u>\$ 224,805</u>

Reconciliation of Total Cash

Current Assets - Cash	\$ 39,033
Restricted Assets - Cash	<u>42,330</u>
Total Cash	<u>\$ 81,363</u>

Non-cash Investing, Capital and Related Financing Activities - None

See accompanying notes to financial statements.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Jonathan Creek Water District, (the District), was organized to provide water service to the residents of Benton, Kentucky and the surrounding areas. The District is supported by funds derived from the sale of water and is governed by a five member Board, appointed by the County Judge of Marshall County. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below:

Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, net position, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Position.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

Reclassifications

Prior period financial statement amounts have been reclassified to conform to current period presentation. Operating income and net earnings for the prior period were not impacted by the reclassifications.

Sales of Water

Charges to customers for the sale of water are based on rates approved by the Kentucky Public Service Commission (PSC).

Budget

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2020, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments

Cash and cash equivalents are deposited with Community Financial Services Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents.

Accounts Receivable

The District uses an allowance of uncollectible accounts method to account for bad debts. Accounts receivable is shown net of this allowance. The allowance is based on past history and management's analysis of the current accounts.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2020 are recorded as prepaid items.

Capital Assets

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Utility plant	20 to 62.50 years
Equipment	5 to 13 years

Unearned Revenue

The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

Inventory

Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of the District's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During the year ended December 31, 2020, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Pensions and Other Postemployment Benefits

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

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

Net Position

In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents the consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in the category, deferred charges - pension, and deferred charges - other post-employment benefits (OPEB).

The deferred related pension and OPEB outflows results from pension and OPEB contributions subsequent to the measurement date of the pension plan and OPEB and various changes resulting from actuarial pension and OPEB measurements. The pension and OPEB contribution amounts are deferred and recognized as a component of the change in pension and OPEB plan liabilities in the next measurement period. The various changes resulting from actuarial pension and OPEB measurements are deferred and amortized in future periods as a component of the pension and OPEB expense.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items reported in this category, inflows related to the District's pension and OPEB plans that qualify for reporting in this category - deferred pension and OPEB related inflows. The various changes resulting from actuarial pension and OPEB measurements are deferred and amortized in future periods as a component of the pension and OPEB expense.

Adoption of New Accounting Pronouncements

GASB Statement No.91

GASB Statement No. 91, *Conduit Debt Obligations*, was issued in May 2019. The provisions of this pronouncement are effective for periods beginning after December 15, 2020. This pronouncement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby, improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. The District does not have any transactions meeting the criteria of this standard.

Recent Accounting Pronouncements

As of December 31, 2020, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 92

GASB Statement No. 92, *Omnibus 2020*, was issued in January 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases, and Implementation Guide No 2019-3, Leases*, for interim financial reports, the requirements related to this section were effective upon issuance.
- Reporting intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. This is effective for fiscal years beginning after June 15, 2020.
- The applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended to reporting assets accumulated for postemployment benefits. This is effective for fiscal years beginning after June 15, 2020.
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements. This is effective for fiscal years beginning after June 15, 2020.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition. This is effective for fiscal years beginning after June 15, 2020.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

Management has not yet determined the effect of these provisions on financial reporting.

GASB Statement No. 93

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued March 2020. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR (interbank offered rate). The removal of IBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. Management has not yet determined the effect of this provision on financial reporting.

Jonathan Creek Water District
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GASB Statement No. 94

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, was issued in March 2020. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The effective date of this Statement is for fiscal years beginning after June 15, 2022. Management has not yet determined the effect of this provision on financial reporting.

GASB Statement No. 96

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was issued in May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement provides the definitions of SBITA and establishes the criteria for financial statement recognition and reporting based to the extent relevant on the standards established in Statement No. 87, *Leases*, as amended. The effective date of this Statement is for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. Management has not yet determined the effect of this provision on financial reporting.

Subsequent Events

The District has evaluated subsequent events through July 6, 2021, the date which the financial statements were available to be issued.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report.

2. LEGAL COMPLIANCE

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2020.

3. DEPOSITS AND INVESTMENTS

A. Net Position

The captions on the statement of net position for cash, investments, and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	Deposits	Investments	Total
Cash equivalents	\$ 39,033	\$ -	\$ 39,033
Restricted assets			
Cash equivalents	42,330	-	42,330
Total	\$ 81,363	\$ -	\$ 81,363

B. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions were \$81,363, and the bank balances were \$91,983. The bank balances were covered by federal depository insurance.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

4. RESTRICTED NET POSITION

The District has restricted assets totaling \$42,330. These assets are restricted meter deposits. They are released from restriction when applied to the customers final bill.

5. CAPITAL ASSETS

A summary of proprietary fund property, plant, and equipment at December 31, 2020 for business-type activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
<u>Capital assets, not being depreciated</u>				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	<u>65,488</u>	<u>-</u>	<u>(65,488)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>75,488</u>	<u>-</u>	<u>(65,488)</u>	<u>10,000</u>
<u>Capital assets, being depreciated</u>				
Transmission and distribution	4,711,590	180,546	-	4,892,136
Distribution reservoirs	700,034	-	-	700,034
Transportation equipment	109,836	-	-	109,836
Land rights	6,225	-	-	6,225
Commercial equipment	108,403	-	-	108,403
Hydrants	83,165	-	-	83,165
Meters and meter installation	636,789	33,586	-	670,375
Pumping equipment	357,304	-	-	357,304
Water treatment equipment	384,348	-	-	384,348
Tools and shop equipment	24,886	-	-	24,886
Office furniture and equipment	33,402	-	-	33,402
Miscellaneous equipment	193,928	-	-	193,928
Power equipment	434,072	-	-	434,072
Communication equipment	1,958	-	-	1,958
Structures and improvements	43,486	-	-	43,486
Wells and springs	170,646	-	-	170,646
Organization	5,702	-	-	5,702
Services	<u>75,751</u>	<u>-</u>	<u>-</u>	<u>75,751</u>
Total capital assets, being depreciated	<u>8,081,525</u>	<u>214,132</u>	<u>-</u>	<u>8,295,657</u>

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

CAPITAL ASSETS (cont)

Less accumulated depreciation for

Transmission and distribution	(2,162,217)	(76,629)	-	(2,238,846)
Distribution reservoirs	(631,257)	(3,605)	-	(634,862)
Transportation equipment	(92,129)	(11,757)	-	(103,886)
Land rights	(6,056)	(125)	-	(6,181)
Commercial equipment	(57,562)	(11,512)	-	(69,074)
Hydrants	(79,124)	(1,627)	-	(80,751)
Meters and meter installation	(348,944)	(11,590)	-	(360,534)
Pumping equipment	(230,744)	(9,995)	-	(240,739)
Water treatment equipment	(366,120)	(8,818)	-	(374,938)
Tools and shop equipment	(20,453)	(1,549)	-	(22,002)
Office furniture and equipment	(32,289)	(179)	-	(32,468)
Miscellaneous equipment	(176,569)	(2,977)	-	(179,546)
Power equipment	(134,703)	(30,644)	-	(165,347)
Communication equipment	(1,958)	-	-	(1,958)
Structures and improvements	(15,287)	(1,040)	-	(16,327)
Wells and springs	(59,601)	(3,413)	-	(63,014)
Organization	(5,702)	-	-	(5,702)
Services	(58,811)	(499)	-	(59,310)
Total accumulated depreciation	<u>(4,479,526)</u>	<u>(175,959)</u>	<u>-</u>	<u>(4,655,485)</u>
Total capital assets, being depreciated, net	<u>3,601,999</u>			<u>3,640,172</u>
Business-type activities capital assets, net	\$ <u>3,677,487</u>			\$ <u>3,650,172</u>

Depreciation charged to income was \$175,959.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

6. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

A summary of change in deferred outflows/inflows of resources is as follows:

	<u>Balance</u> <u>12/31/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2020</u>
Pensions				
Deferred outflows of resources:				
<i>Deferred pension contributions</i>	\$ 25,023	\$ 26,927	\$ (25,023)	\$ 26,927
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	58,828	-	(42,937)	15,891
<i>Differences between expected and actual experience</i>	22,853	-	(3,570)	19,283
<i>Change in assumptions</i>	90,587	-	(60,392)	30,195
<i>Difference between projected and actuarial earnings</i>	<u>17,181</u>	<u>16,338</u>	<u>-</u>	<u>33,519</u>
<i>Pension related deferred outflows</i>	<u>\$ 214,472</u>	<u>\$ 43,265</u>	<u>\$ (131,922)</u>	<u>\$ 125,815</u>
Deferred inflows of resources:				
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	\$ 39,935	\$ 95,305	\$ -	\$ 135,240
<i>Differences between expected and actual experience</i>	3,782	-	(3,782)	-
<i>Difference between projected and actuarial earnings</i>	<u>31,609</u>	<u>-</u>	<u>(17,440)</u>	<u>14,169</u>
<i>Pension related deferred inflows</i>	<u>\$ 75,326</u>	<u>\$ 95,305</u>	<u>\$ (21,222)</u>	<u>\$ 149,409</u>
Other Post-employment Benefits (OPEB)				
Deferred outflows of resources:				
<i>Deferred OPEB contributions</i>	\$ 7,902	\$ 6,732	\$ (7,902)	\$ 6,732
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	27,447	-	(6,383)	21,064
<i>Subsidy</i>	4,595	1,378	-	5,973
<i>Difference between projected and actual experience</i>	-	40,663	-	40,663
<i>Difference between projected and actuarial earnings</i>	1,410	11,645	-	13,055
<i>Change in assumptions</i>	<u>63,323</u>	<u>-</u>	<u>(20,990)</u>	<u>42,333</u>
<i>OPEB related deferred outflows</i>	<u>\$ 104,677</u>	<u>\$ 60,418</u>	<u>\$ (35,275)</u>	<u>\$ 129,820</u>
Deferred inflows of resources:				
<i>Changes in proportion and differences between employer and contributions and proportionate share of contributions</i>	\$ 16,994	\$ 34,645	\$ -	\$ 51,639
<i>Differences between expected and actual experience</i>	64,567	-	(23,872)	40,695
<i>Change in assumptions</i>	423	-	(166)	257
<i>Difference between projected and actuarial earnings</i>	<u>10,914</u>	<u>-</u>	<u>(5,948)</u>	<u>4,966</u>
<i>OPEB related deferred inflows</i>	<u>\$ 92,898</u>	<u>\$ 34,645</u>	<u>\$ (29,986)</u>	<u>\$ 97,557</u>

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

7. DEBT OBLIGATIONS

Line of Credit

On September 5, 2018, the District established a line of credit with Community Financial Services Bank to be used to help fund operating expenses. The interest rate of the line of credit is 5.5% and each installment borrowed is due in twenty four (24) months. The line of credit has a credit limit of \$400,000. During 2020 draws totaling \$13,936 were taken. The balance as of December 31, 2020, was \$93,897.

Capital Lease

On July 21, 2017, the District entered into a capital lease agreement with Ditch Witch to purchase a trencher, a jet track drill package, and a trailer totaling \$314,043. Payments of \$5,746 are due monthly for 60 payments. The accumulated depreciation as of December 31, 2020, for this equipment was \$82,537, leaving a current book value of \$231,506. A corresponding liability is recorded in the financial statements. Principal payments in fiscal year 2020 totaled \$63,336.

Description	Interest Rate	Maturity Date	Balance 12/31/2020	Due in One Year
Capital Lease - Ditch Witch	3.76%	2022	\$ 117,196	\$ 65,720
Total			<u>\$ 117,196</u>	<u>\$ 65,720</u>

Note Payable

On May 3, 2016, the District entered into a loan agreement with Community Financial Services Bank to refinance existing debt totaling \$600,672. The loan has an interest rate of 3.125%. Payments of \$10,851 are due in monthly installments and the loan matures April 15, 2021.

Description	Interest Rate	Maturity Date	Balance 12/31/2020	Due in One Year
CFSB Notes Payable	3.125%	2021	\$ 85,476	\$ 85,476

Changes in Business-Type Activities Debt

A summary of changes in the business-type activities debt for the year ended December 31, 2020 follows:

	Balance 12/31/2019	Debt Proceeds	Principal Payments	Balance 12/31/2020	Due Within One Year
<u>Business-Type Activities</u>					
Capital Lease - Ditch Witch	\$ 180,532	\$ -	\$ 63,336	\$ 117,196	\$ 65,720
CFSB - Notes Payable	<u>180,180</u>	-	<u>94,704</u>	<u>85,476</u>	<u>85,476</u>
Total Business-Type Activities	<u>\$ 360,712</u>	<u>\$ -</u>	<u>\$ 158,040</u>	<u>\$ 202,672</u>	<u>\$ 151,196</u>

Jonathan Creek Water District
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Principal and interest requirements of the revenue bonds payable as of December 31, 2020 are:

Year Ending December 31,	Principal	Interest	Total
2021	\$ 151,196	\$ 3,655	\$ 76,773
2022	51,476	234	73,894
Total	\$ 202,672	\$ 3,889	\$ 150,667

Interest expense for the year was \$12,898.

8. EMPLOYEES' RETIREMENT PLAN

The District provides retirement benefits to its employees through a multi-employer public employee retirement fund administered by the Kentucky County Employees Retirement District (CERS). Information regarding this plan is as follows:

County Employees' Retirement System

Plan description. The District is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of Kentucky Revised Statute ("KRS") Sections 61.645, the Board of Trustees administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <https://kyret.ky.gov>.

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

Nonhazardous members

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	Minimum 5 years of service and 55 years old Minimum 25 years of service and any age
Tier 2	Participation date	September 1, 2008 and December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Minimum 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Not available

Jonathan Creek Water District
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For the Year Ended December 31, 2020

Plan Funding. State statute requires active members to contribute a percentage of creditable compensation based on the tier:

	<u>Required Contributions</u>
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

Employers contribute at the rate determined by the CERS Board to be necessary for the actuarial soundness of the District, as required by KRS 61.565 and 61.752. The District's required contribution rate for non-hazardous employees was 19.30% for the period January 1, 2020 to June 30, 2020; and 19.30% for the period July 1, 2020 to December 31, 2020.

Senate Bill 249 passed during the 2020 Legislative Session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20 year amortization bases. This change does not impact the calculation of total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. Further, Senate Bill 249 froze the CERS employer rate phase-in for one year.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At December 31, 2020, the District reported a liability of \$773,281 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's share of contributions to CERS relative to the total contributions of all participating employers, actuarially determined. At June 30, 2019, the District's proportion was .010082%.

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expenses of \$92,742 for the year ended December 31, 2020. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ 19,283	\$ -
Net differences between projected and actual investment earnings	33,519	14,169
Change of assumption	30,195	-
Changes in proportion and differences between employer contributions and share of contributions	15,891	135,240
Contributions subsequent to the measurement date	<u>26,927</u>	<u>-</u>
Totals	<u>\$ 125,815</u>	<u>\$ 149,409</u>

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Notes to the Financial Statements
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Deferred Outflows of Resources. The \$26,927 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending</u>		
December 31, 2021	\$	(21,880)
December 31, 2022		(38,451)
December 31, 2023		2,038
December 31, 2024		<u>7,772</u>
Total	\$	<u>(50,521)</u>

Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2019. The actuarial assumptions are:

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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for 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.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumption used in the June 30, 2019 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

Jonathan Creek Water District
Notes to the Financial Statements
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The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Growth		
US Equity	18.75%	4.50%
Non US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity		
Core Bonds	13.50%	(0.25)%
Cash	1.00%	(0.75)%
Diversifying Strategies		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	<u>100.00%</u>	

Discount Rate. The discount rate used to measure the total pension liability for the plan was 6.25% for non-hazardous employees. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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

	1% Decrease	Current Discount Rate 6.25%	1% Increase
The District's proportionate share of the net pension liability	<u>5.25%</u>	<u>Rate 6.25%</u>	<u>7.25%</u>
	\$ 953,624	\$ 773,281	\$ 623,950

Payables to the pension plan. At December 31, 2020, the financial statements include \$6,027 in contractually required employee contributions primarily for the month ended December 31, 2020. The obligation was paid within prescribed time limits.

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

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Other Postemployment Benefit Plan (OPEB)

CERS Medical Insurance Plan

Plan description. The District contributes to the Kentucky Retirement Systems Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Kentucky Retirement System (KRS). The Insurance Fund was established to provide hospital and medical insurance for members for receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS).

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payments of required premiums to purchase hospital and medical insurance, based on years of service, for retirees and certain eligible beneficiaries. The authority to establish and amend benefit provisions rests with the Kentucky General Assembly. KRS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Contributions. Per Kentucky Revised Statutes 78.545 (33), contribution requirements are established and may be amended by the KRS Board. The District's required contribution rate for non-hazardous employees was 4.76% for the period January 1, 2020 to June 30, 2020; and 4.76% for the period July 1, 2020 to December 31, 2020.

OPEB Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources. At December 31, 2020, the District reported a net OPEB liability of \$243,377 for its proportionate share of the CERS net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020. At June 30, 2020, the District's proportion was .010079% for nonhazardous classified employees.

For the year ended December 31, 2020, the District recognized OPEB expense of \$20,022. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected & actual earnings on pension plan investments	\$ 40,663	\$ 40,695
Changes of assumptions	42,333	257
Net difference between projected and actual earnings on plan investments	13,055	4,966
Changes in proportion and differences between employer contributions and proportionate share of contributions	21,064	51,639
Contributions subsequent to the measurement date, including implicit subsidy	<u>12,705</u>	<u>-</u>
Totals	<u>\$ 129,820</u>	<u>\$ 97,557</u>

The \$12,705 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and the December 31, 2020 implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,		
2021	\$	6,841
2022		9,235
2023		4,658
2024		264
2025		<u>(1,440)</u>
	\$	<u>19,558</u>

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

Inflation	2.30%
Payroll Growth Rate	2.0% CERS Non-hazardous
Salary Increase	3.30% - 11.55%, varies by service
Investment Rate of Return	6.25% net of plan investment expense, including inflation

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

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Growth		
US Equity	18.75%	4.50%
Non US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity		
Core Bonds	13.50%	(0.25)%
Cash	1.00%	(0.75)%
Diversifying Strategies		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	<u>100.00%</u>	

Discount Rate. The single discount rate of 5.34% for CERS non-hazardous is based on the long-term expected rate of return on OPEB plan investments of 6.25% and a long-term municipal bond rate of 2.45% as reported in Fidelity Index's "2-Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit 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 trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Implicit Subsidy. The fully-insured premiums KRS pays for the KERS, CERS, and SPRS Health Insurance Plans are blended rates based on the combined experience of the active and retired members. Since 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 non-Medicare eligible retirees. Participating employees should adjust their contributions by the implicit subsidy in order to determine the total employer contributions for GASB 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after measurement date. The District's implicit subsidy for the year ended December, 31, 2020 was \$5,973.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of present, as well as what the plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.34%) or one percentage point higher (6.34%) than the current rate (5.34%):

	1% Decrease 4.34%	Current Discount Rate 5.34%	1% Increase 6.34%
The District's proportionate share of the net OPEB liability	\$ 312,668	\$ 243,377	\$ 186,466

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate. The following presents the Board's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as, what the

Jonathan Creek Water District
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Service's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The District's proportionate share of the net OPEB liability	\$ 188,435	\$ 243,377	\$ 310,051

9. CONTINGENCIES

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2020, there have been no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from grant funds are recognized and are recorded as revenue.

10. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2019 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

11. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Jonathan Creek, Kentucky. For the year ended December 31, 2020, the revenues from these sources totaled \$948,001. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

12. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employees are entitled to vacation pay according to the following schedule:

1 to 4 years	80 hours
5 to 9 years	120 hours
10 to 14 years	160 hours
15 and up	200 hours

Employees are allowed to carryforward 40 hours of vacation time. Any number of remaining hours above 40 will be paid at regular hourly rate. Upon termination of employment, an employee will be paid for all unused vacation leave. The liability for unused vacation time at December 31, 2020 was \$5,939.

The District's policy on sick pay states that employees will be granted 8 hours at the end of each 30 day period worked. The maximum number of hours that can be accrued is 288 or 36 days. If an employee accumulates 288 hours of unused time, hours will cease to accrue until time is used. If an employee retires, with unused time remaining, the unused time will be paid at 1/2 the number of hours that remain.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2020

13. **LITIGATION**

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Jonathan Creek Water District
Statement of Revenues, Expenses, and
Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
<u>Revenues</u>	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Water revenues	\$ 1,100,000	\$ 1,100,000	\$ 948,001	\$ (151,999)
Other	-	-	6,207	6,207
Total Operating Revenues	<u>1,100,000</u>	<u>1,100,000</u>	<u>954,208</u>	<u>(145,792)</u>
<u>Operating Expenses</u>				
General and administrative expenses	273,671	273,671	257,799	15,872
Transmission and distribution expenses	375,005	375,005	353,256	21,749
Depreciation	254,034	254,034	175,959	78,075
Pumping expenses	93,487	93,487	88,065	5,422
Payroll and other taxes	30,800	30,800	23,968	6,832
Water treatment expenses	21,407	21,407	20,165	1,242
Bad debt expense	-	-	-	-
Total Operating Expenses	<u>1,048,404</u>	<u>1,048,404</u>	<u>919,212</u>	<u>129,192</u>
<u>Operating Income (Loss)</u>	<u>51,596</u>	<u>51,596</u>	<u>34,996</u>	<u>(16,600)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	-	-	453	453
Interest on debt	-	-	(12,898)	(12,898)
Total Nonoperating Revenue (Expenses)	<u>-</u>	<u>-</u>	<u>(12,445)</u>	<u>(12,445)</u>
<u>Net Income before Capital Contributions</u>	51,596	51,596	22,551	(29,045)
<u>Capital Contributions</u>				
Fiscal Court funds	-	-	78,939	78,939
Tap-on fees	35,000	35,000	29,535	(5,465)
Total Capital Contributions	<u>35,000</u>	<u>35,000</u>	<u>108,474</u>	<u>73,474</u>
<u>Change in Net Position</u>	<u>\$ 86,596</u>	<u>\$ 86,596</u>	131,025	<u>\$ 44,429</u>
<u>Net Position-Beginning of Year</u>			<u>2,440,458</u>	
<u>Net Position-End of Year</u>			<u>\$ 2,571,483</u>	

Jonathan Creek Water District
County Employee Retirement System
Schedule of the Proportionate Share
of the Net Pension Liability
As of December 31, 2020
Last Ten Years

<u>Year Ended</u> <u>June 30</u>	<u>District's proportion</u> <u>of the net pension</u> <u>liability</u>	<u>District's</u> <u>proportionate share of</u> <u>the net pension</u> <u>liability (asset)</u>	<u>District's covered</u> <u>employee payroll</u>	<u>District's share of the</u> <u>net pension liability</u> <u>(asset) as a percentage</u> <u>of its covered</u> <u>employee payroll</u>	<u>Plan fiduciary net</u> <u>position as a</u> <u>percentage of the total</u> <u>pension liability</u>
<i>CERS Nonhazardous</i>					
2020	0.010082%	\$773,281	\$261,306	295.93%	47.81%
2019	0.012726%	\$895,025	\$297,706	300.64%	50.45%
2018	0.013799%	\$840,401	\$319,931	262.68%	53.54%
2017	0.011333%	\$663,355	\$324,982	204.12%	53.30%
2016	0.009940%	\$489,593	\$341,265	143.46%	55.50%
2015	0.006920%	\$297,444	\$240,844	123.50%	59.97%
2014	0.006620%	\$284,772	\$201,612	141.25%	66.80%

Note to Schedule:

(1) The amounts presented were determined as of the measurement date June 30. District payroll is reported for its' covered employees on a calendar years ending December 31.

Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Jonathan Creek Water District
County Employee Retirement System
Schedule of Pension Contributions
As of December 31, 2020
Last Ten Years

<u>Year Ended</u> <u>June 30</u>	<u>Contractually required</u> <u>contribution</u>	<u>Contributions relative</u> <u>to contractually</u> <u>required contribution</u>	<u>Contribution</u> <u>deficiency (excess)</u>	<u>District's covered</u> <u>employee payroll</u>	<u>Contributions as a</u> <u>percentage of covered</u> <u>employee payroll</u>
<u>CERS Nonhazardous</u>					
2020	\$50,296	\$50,296	\$ -	\$261,306	19.30% / 19.30%
2019	\$52,665	\$52,665	\$ -	\$297,706	16.22% / 19.30%
2018	\$49,129	\$49,129	\$ -	\$319,931	14.48% / 16.22%
2017	\$48,772	\$48,772	\$ -	\$324,982	13.95% / 14.48%
2016	\$63,974	\$63,974	\$ -	\$341,265	12.42% / 13.95%
2015	\$44,324	\$44,324	\$ -	\$240,844	12.75% / 12.42%
2014	\$34,602	\$34,6029	\$ -	\$201,612	13.74% / 12.75%

Note to Schedule:

Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of CERS. The above contributions only include those allocated directly to the CERS pension fund.

Jonathan Creek Water District
County Employee Retirement System
Schedule of Changes in Benefits and Assumptions
For the Year Ended December 31, 2020

Note A - Changes of Assumptions:

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, listed below:

2015:

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB 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 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

2017:

The actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

Inflation	2.30%
Salary increases	3.05%, average
Investment rate of return	6.25%, net of pension plan investment expense including inflation

2018:

There have been no changes in actuarial assumption since June 30, 2017.

2019:

The assumed salary increases were increased to 3.30% to 11.55%, from 3.05% to 18.55%.

2020:

There have been no changes in actuarial assumptions since June 30, 2019.

Jonathan Creek Water District
County Employee Retirement System
Schedule of Changes in Benefits and Assumptions
For the Year Ended December 31, 2020

Note B - Method and assumptions used in calculations of actuarially determined contribution

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2020, determined as of June 30, 2019. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

Valuation date	June 30, 2018
Experience study	July 1, 2013 - June 30, 2018
Actual cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Payroll growth rate	2.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service for CERS
Investment rate of return	6.25%
Phase-In provision	Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018.

Note C - Changes in benefits:

2009: A new benefit tier for members who first participate on or after September 1, 2008, was introduced which included the following changes:

1. Tiered structure for benefit accrual rates.
2. New retirement eligibility requirements.
3. Different rules for the computation of final average compensation.

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014

2018: House Bill 185 was enacted, which updated benefit provisions for active members who die in the line of duty.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the District will present information for those years for which information is available.

Jonathan Creek Water District
County Employee Retirement System
Schedule of the Proportionate Share
of the Net OPEB Liability
As of December 31, 2020
Last Ten Years (1)

Year Ended June 30	District's proportion of the net OPEB liability	District's proportionate share of the net OPEB liability (asset)	District's covered employee payroll	District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
<u>CERS Nonhazardous</u>					
2020	0.010079%	\$243,377	\$261,306	93.14%	51.67%
2019	0.012723%	\$213,995	\$297,706	71.88%	60.44%
2018	0.013803%	\$245,070	\$319,931	76.60%	57.62%
2017	0.011333%	\$227,832	\$324,982	70.11%	52.40%

Note to Schedule:

(1) The amounts presented were determined as of the measurement date June 30. District payroll is reported for its' covered employees on calendar years ending December 31.

Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Jonathan Creek Water District
County Employee Retirement System
Schedule of OPEB Contributions
As of December 31, 2020
Last Ten Years

<u>Year Ended</u> <u>June 30</u>	<u>Contractually required</u> <u>contribution</u>	<u>Contributions relative</u> <u>to contractually</u> <u>required contribution</u>	<u>Contribution</u> <u>deficiency (excess)</u>	<u>District's covered</u> <u>employee payroll</u>	<u>Contributions as a</u> <u>percentage of covered</u> <u>employee payroll</u>
<u>CERS Nonhazardous</u>					
2020	\$12,574	\$12,574	\$ -	\$261,306	4.76% / 4.76%
2019	\$14,813	\$14,813	\$ -	\$297,706	5.26% / 4.76%
2018	\$15,918	\$15,918	\$ -	\$319,931	4.70% / 5.26%
2017	\$16,257	\$16,257	\$ -	\$324,982	4.73% / 4.70%

Note to Schedule:

Contributions in relation to statutorily required OPEB contributions are the contributions an employer actually made to the OPEB Plan, as distinct from the statutorily required contributions.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of CERS. The above contributions only include those allocated directly to the CERS insurance fund.

Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Jonathan Creek Water District
County Employee Retirement System
Schedule of Changes in OPEB Benefits and Assumptions
For the Year Ended December 31, 2020

Note A - Changes of Assumptions:

2017:

The actuarial valuation was performed as of June 30, 2016. Gabriel Roeder Smith Retirement Consulting rolled forward from the valuation date to the plan's fiscal year end of June 30, 2017 using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017. Specifically, a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

2018:

There have been no changes in actuarial assumptions since June 30, 2017.

2019:

The payroll growth rate was reduced to 2.0% from 4.0%.

The inflation rate was reduced to 2.30% from 3.25%.

The investment rate of return was reduced to 6.25% from 7.50%.

2020:

There have been no changes in actuarial assumptions since June 30, 2019.

Note B - Method and assumptions used in calculations of actuarially determined contributions.

The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule for the year ending June 30, 2020.

Valuation date	June 30, 2018
Experience study	July 1, 2008 - June 30, 2013
Actual cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service for CERS
Payroll growth rate	2.00%, CERS non-hazardous
Investment rate of return	6.25% net of plan investment expense, including inflation
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post-65	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-In provision	Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018.

Notes C - Changes of Benefits:

There were no changes to benefits for OPEB Plan.

OTHER SUPPLEMENTARY INFORMATION

Jonathan Creek Water District
Detail Schedule of Operating Expenses
For the Year Ended December 31, 2020

<u>General operating expenses</u>	
Salaries and wages	\$ 106,708
Employee insurance and benefits	55,568
Retirement	33,202
Monthly billing expenses	18,612
Miscellaneous	10,592
Telephone and internet	8,392
Legal and professional	7,120
Workers comp and bond insurance	6,561
Office supplies	4,690
Uniforms	2,799
Registration expenses	2,236
Bank charges	1,276
Training and education	43
Total general operating expenses	<u>257,799</u>
<u>Transmission and distribution expenses</u>	
Salaries & wages	296,105
Insurance expenses	28,508
Supplies & materials	12,230
Vehicle expenses	7,583
Repairs & maintenance	6,846
Telephone expenses	1,984
Total water expenses	<u>353,256</u>
<u>Depreciation expense</u>	<u>175,959</u>
<u>Pumping expenses</u>	<u>88,065</u>
<u>Payroll and other taxes</u>	<u>23,968</u>
<u>Water treatment</u>	
Chemicals	13,707
Testing	6,458
Total water treatment	<u>20,165</u>
<u>Total operating expenses</u>	<u>\$ 919,212</u>

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

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

To the Board of Commissioners
Jonathan Creek Water District
Benton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Jonathan Creek Water District, as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Jonathan Creek Water District's basic financial statements, and have issued our report thereon dated July 6, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (2020-1 and 2020-2).

Compliance and Other Matters

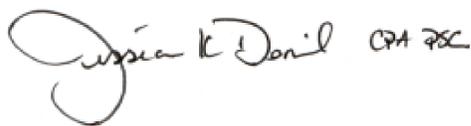
As part of obtaining reasonable assurance about whether the Jonathan Creek Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 that are required to be reported under *Government Auditing Standards*.

Jonathan Creek Water District's Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Jessica K. Donil CPA FSC". The signature is written in a cursive style with a large, looping initial "J".

Eddyville, Kentucky
July 6, 2021

Jonathan Creek Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2020

2020-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We agree with the finding and have put in place certain compensating controls to help alleviate exposure.

2020-2: Audit Adjustments

Criteria: Audit adjustments were indicative of a deficiency in the internal controls over financial reporting.

Condition: During our audit, we identified material adjustments resulting in significant changes to the District's financial statements.

Context: The inability to make all necessary accrual adjustments related to the GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* reporting requirements increases the likelihood that the financial statements would not be fairly presented.

Cause: During our audit, we made recommendations for journal entries that were necessary to comply with the GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, reporting requirements.

Effect: The audit adjustment to record deferred outflows of resources, net pension liability, net OPEB liability, and deferred inflows of resources related to the District's involvement with the County Employees Retirement System was reviewed and approved by the District's management and is reflected in the financial statements.

Recommendations: We recommend that the District review the trial balance and journal entries with us to ensure they understand and are in agreement with the entries. The District should establish internal controls necessary to determine that all adjusting entries are made to ensure the District's financial statements are reported in accordance with generally accepted accounting principles.

Response: The District's management will review the trial balance and journal entries in detail. The District understands their obligation to recognize pension expense and report deferred outflows of resources, deferred inflows of resources, net pension liability, and net OPEB liability related to their proportionate share of the County Employees Retirement System.

Jonathan Creek Water District
Schedule of Prior Year Findings and Responses
For The Year Ended December 31, 2019

2019-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We agree with the finding and have put in place certain compensating controls to help alleviate exposure.