LARUE COUNTY WATER DISTRICT NO. 1

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2019 AND 2018

LARUE COUNTY WATER DISTRICT NO. 1

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YEARS ENDED DECEMBER 31, 2019 AND 2018

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Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Larue County Water District No. 1
Buffalo, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Larue County Water District No. 1 as of and for the years ended December 31, 2019 and 2018, and the related notes to the 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 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 respective financial position of Larue County Water District No. 1, as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2019, the District adopted Governmental Accounting Standards Board Statement 84, *Fiduciary Activities,* Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* and Statement 90, *Majority Equity Interests- An Amendment of GASB Statements No. 14 and No. 61.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 8, schedule of proportionate share of the net pension and OPEB liabilities on pages 32 and 33 and schedule of contributions on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Larue County Water District No. 1's basic financial statements. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Schedule III has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2020, on our consideration of Larue County Water District No. 1'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 Larue County Water District No. 1's internal control over financial reporting and compliance.

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
June 24, 2020

REQUIRED SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2019

The discussion and analysis of Larue County Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2019. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the District was $1.80 million. The balance at December 31, 2018, was $1.90 million. This reflects a $.10 million decrease in cash and investments during the year.

- The District invested approximately $398,000 in capital assets during the year.

USING THIS ANNUAL REPORT

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; and notes to the basic financial statements.

The ***statement of net position*** presents the financial position of the District on a full accrual historical cost basis. The statement presents information on all of the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the ***statement of revenues, expenses, and changes in fund net position*** presents the results of the District's activities over the course of the fiscal year and information as to how the net position changed during the 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 the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The ***statement of cash flows*** presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The ***notes to the basic financial statements*** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

ENTITY-WIDE FINANCIAL ANAYLSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by $7.78 million and $7.79 million as of December 31, 2019 and 2018.

The largest portion of the District's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, equipment, transmission and distribution systems and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is 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 financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Position
as of December 31, 2019 and 2018

	2019	2018
Assets		
Current and Other Assets	$ 2,974,027	$ 3,065,634
Captial Assets	8,333,865	8,320,102
Total Assets	11,307,892	11,385,736
Deferred Outflows of Resources	151,712	196,554
Liabilities		
Long-term Liabilities	2,336,720	2,436,114
Other Liabilities	1,067,096	1,185,707
Total Liabilities	3,403,816	3,621,821
Deferred Inflows of Resources	279,771	171,864
Net Position		
Net investment in capital assets	5,997,145	5,883,988
Restricted	135,123	144,263
Unrestricted	1,643,749	1,760,354
Total Net Position	$ 7,776,017	$ 7,788,605

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), increased $113 thousand at December 31, 2019. Restricted net position decreased $9 thousand. Net investment in capital assets decreased $116 thousand.

(Table 2)
Changes in Net Position
Years Ending December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES:		
Water sales	$ 1,510,679	$ 1,407,576
Other operating income	29,855	19,965
TOTAL OPERATING REVENUES	1,540,534	1,427,541
OPERATING EXPENSES:		
Water purchased	425,409	410,244
Power purchased	28,882	26,367
Meter labor and expense	298,810	329,796
Bad debt	4,184	4,191
Repairs and maintenance	108,448	80,638
General and administrative expenses	306,539	319,921
Depreciation	384,291	392,152
TOTAL OPERATING EXPENSES	1,556,563	1,563,309
OPERATING LOSS	(16,029)	(135,768)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	25,256	7,171
Gain on sale of capital asset	-	7,566
Interest expense on long-term debt	(90,088)	(92,750)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(64,832)	(78,013)
CAPITAL CONTRIBUTIONS	68,273	49,680
CHANGE IN NET POSITION	(12,588)	(164,101)
NET POSITION, beginning of year	7,788,605	7,952,706
NET POSITION, end of year	$ 7,776,017	$ 7,788,605

Operating revenue increased 7.9% as compared to the prior year as new customers were added. Total operating expenses decreased less than .1%. Interest expense on long-term debt declined 2.9%. The District continues to receive capital contributions from customers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2019 and 2018, the District had $8.3 million and $8.3 million invested in a variety of capital assets, as reflected in the following tables:

(Table 3)
Capital Assets (Net of Depreciation
as of December 31, 2019 and 2018

	2019	2018
Non-Depreciable Assets:		
Land and land rights	$ 300,861	$ 66,580
Depreciable Assets:		
Structures and improvements	88,217	99,582
Electric pumping equipment	119,306	66,162
Standpipes and tanks	1,636,702	1,692,204
Transmission and distribution mains	5,355,578	5,533,235
Services	292,258	319,885
Hydrants	82,414	84,680
Office furniture and fixtures	13,010	10,661
Transportation equipment	63,673	64,069
Tool and shop equipment	46	48
Meters & installation	381,800	382,996
Capital Assets, net of accumulated depreciation	$ 8,333,865	$ 8,320,102

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Beginning Balance	$ 8,320,102	$ 8,594,059
Additions	398,054	118,195
Retirements	-	-
Depreciation	(384,291)	(392,152)
Ending Balance	$ 8,333,865	$ 8,320,102

Debt

At December 31, 2019 and 2018, the District had $223 thousand and $227 thousand, in revenue bonds outstanding and $2.1 million and $2.2 million of notes payable. A total of $103 thousand is due within the 2020 calendar year.

(Table 5)
Outstanding Debt
as of December 31, 2019 and 2018

	2019	2018
Revenue bonds	$ 223,000	$ 227,000
Notes payable	2,102,917	2,197,500
Unamortized discount premium	10,803	11,614
Total	$ 2,336,720	$ 2,436,114

District Challenges for the Future

The District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent.

The District will continue to use careful planning and monitoring of finances to provide quality services to its customers.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Tim Bartley, General Manager, 6215 North L&N Turnpike, Buffalo, Kentucky 42716, (270) 325-3242.

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF NET POSITION

DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 325,644	$ 266,942
Unrestricted investments	211,895	184,622
Accounts receivable, net	102,936	100,138
Unbilled receivables	62,007	55,794
Prepaid loan payment	14,532	14,532
Prepaid expenses	23,726	17,507
Materials and supplies	21,912	39,877
TOTAL CURRENT ASSETS	762,652	679,412
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	278,819	490,455
Restricted investments	980,005	959,355
Regulatory asset- CERS Pension	725,069	698,823
Regulatory asset- CERS OPEB	227,482	237,589
Non-depreciable capital assets	300,861	66,580
Depreciable capital assets, net of accumulated depreciation	8,033,004	8,253,522
TOTAL NONCURRENT ASSETS	10,545,240	10,706,324
TOTAL ASSETS	11,307,892	11,385,736
DEFERRED OUTFLOWS OF RESOURCES		
CERS Pension	103,586	153,230
CERS OPEB	48,126	43,324
TOTAL DEFERRED OUTFLOWS OF RESOURCES	151,712	196,554
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	28,977	28,977
Payroll and other accrued liabilities	23,897	21,143
Accrued vacation	51,842	44,234
Accrued interest	284	284
Customer deposits	20,641	19,495
Note and bond payable	103,583	98,583
TOTAL CURRENT LIABILITIES	229,224	212,716
NONCURRENT LIABILITIES:		
Customer deposits	116,963	110,472
Net pension liability- CERS Pension	665,396	744,174
Net pension liability- CERS OPEB	159,096	216,928
Note and bond payable	2,233,137	2,337,531
TOTAL NONCURRENT LIABILITIES	3,174,592	3,409,105
TOTAL LIABILITIES	3,403,816	3,621,821
DEFERRED INFLOWS OF RESOURCES		
CERS Pension	163,259	107,879
CERS OPEB	116,512	63,985
TOTAL DEFERRED INFLOWS OF RESOURCES	279,771	171,864
NET POSITION		
Net investment in capital assets	5,997,145	5,883,988
Restricted net position	135,123	144,263
Unrestricted	1,643,749	1,760,354
TOTAL NET POSITION	$ 7,776,017	$ 7,788,605

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

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Water sales	$ 1,510,679	$ 1,407,576
Other operating income	29,855	19,965
TOTAL OPERATING REVENUES	1,540,534	1,427,541
OPERATING EXPENSES:		
Water purchased	425,409	410,244
Power purchased	28,882	26,367
Meter labor and expense	298,810	329,796
Bad debt	4,184	4,191
Repairs and maintenance	108,448	80,638
General and administrative expenses	306,539	319,918
Depreciation	384,291	392,152
TOTAL OPERATING EXPENSES	1,556,563	1,563,306
OPERATING INCOME (LOSS)	(16,029)	(135,765)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	25,256	7,171
Gain on disposal of capital asset	-	7,566
Interest expense on long-term debt	(90,088)	(92,750)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(64,832)	(78,013)
CAPITAL CONTRIBUTIONS	68,273	49,680
CHANGE IN NET POSITION	(12,588)	(164,098)
NET POSITION, beginning of year	7,788,605	7,952,703
NET POSITION, end of year	$ 7,776,017	$ 7,788,605

The accompanying notes are integral part of these financial statements.

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 1,537,736	$ 1,439,289
Payments to suppliers	(734,253)	(680,429)
Payments to employees	(410,303)	(450,579)
NET CASH PROVIDED BY OPERATING ACTIVITIES	393,180	308,281
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	(98,583)	(94,000)
Acquisition and construction of capital assets	(398,054)	(112,306)
Sale of capital assets	-	7,565
Capital contributions	15,352	49,680
Prepayments of long-term debt	-	(14,532)
Interest on long-term debt	(90,088)	(92,750)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(571,373)	(256,343)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	25,256	7,171
NET CASH PROVIDED BY INVESTING ACTIVITIES	25,256	7,171
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(152,937)	59,109
CASH AND RESTRICTED CASH AND EQUIVALENTS, beginning of year	757,400	698,291
CASH AND RESTRICTED CASH AND EQUIVALENTS, end of year	$ 604,463	$ 757,400

	2019	2018
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (16,029)	$ (135,765)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation	384,291	392,152
Provision for bad debts	4,184	4,191
(Increase) decrease in accounts receivable	(2,798)	11,748
Increase (decrease) in unbilled receivables	(6,213)	30,210
(Increase) in prepaid insurance	(6,219)	-
(Increase) in materials and supplies	17,965	-
(Increase) decrease in prepaid expenses	-	(4,004)
Increase (decrease) in accounts payable	-	-
Increase in customer deposits	7,637	2,843
Increase (decrease) increase in accrued taxes payable	2,754	6,906
Increase in accrued vacation	7,608	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 393,180	$ 308,281

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

NOTES TO FINANCIAL STATEMENTS

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Larue County Water District No. 1 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Larue County, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity,* as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL STATEMENT AMOUNTS

1. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2019 and 2018, accounts receivable was stated net of an allowance for uncollectible accounts of $10,500 and $10,500. Bad debt expense for each of the years ended December 31, 2019 and 2018 was $4,184 and $4,191. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.

2. Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.

3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.

4. Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

   Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	Years
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-30

5. Amortization – Bond discounts and premiums are being amortized using the straight-line method over the life of each respective bond issue.

6. Cash Equivalents – For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

7. Compensation for Future Absences – Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

9. Revenues and Rate Structure – Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

10. Capital Contributions – Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

11. Long-term obligations are reported at face value, net of applicable premiums and discounts.

12. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

13. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.

14. Net Position – Net position is divided into three components:

    a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.

    b. Restricted net position – consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.

    c. Unrestricted – all other net position is reported in this category.

15. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, deferred outflows, liabilities, deferred inflows, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. Restatement – During the year ended December 31, 2018, the District adopted the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The provisions of GASB Statement No. 62, Paragraphs 476-500, Regulated Operations were followed. The District presents comparative financial statements so the restatement was made through the December 31, 2017 amounts. The effect of the restatement was to record a regulatory asset of $231,149, deferred outflows of resources of $60,253, deferred inflows of resources of 14,497 and a net OPEB liability of $276,905. There was no effect on beginning net position or the change in net position.

17. Pensions and OPEB – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the 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 except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

    The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions. Accordingly, the District recognizes the actuarially determined contribution as the current year pension and OPEB expense.

18. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In January 2017, the GASB issued Statement 84, Fiduciary Activities. This statement is effective for periods beginning after December 15, 2018. The statement was adopted during the year and did not have an effect on the District's financial statements.

In April 2018, the GASB issued Statement 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This statement is effective for periods beginning after June 15, 2018. The statement was adopted during the year and did not have an effect on the District's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018. The statement was adopted during the year and did not have an effect on the District's financial statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued Statement 87, Leases. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2019, the GASB issued Statement 91, Conduit Debt Obligations. This statement is effective for periods beginning after December 15, 2020. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2020, the GASB issued Statement 92, Omnibus 2020. This statement is effective for periods beginning after June 15, 2020, except for the provisions applicable to Statement 87 and Implementation Guide 2019-3 which are effective upon issuance. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 93, Replacement of Interbank Offered Rates. The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2020, the GASB issued Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The requirements of this Statement are effective immediately. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2020, the GASB issued Statement 96, Subscription-Based Information Technology Arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2019 and 2018, $842,101 and $973,799 of the District's bank balance of $1,830,902 and $1,957,284 was exposed to custodial credit risk. At December 31, 2019 and 2018, $228,298 and $226,969 of the amount exposed to custodial risk were not collateralized. The remaining amount was collateralized by securities held by the pledging financial institution.

NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2019 and 2018:

Restricted For	December 31, 2019	December 31, 2018
Debt Service	$ 135,123	$ 144,263
Reserve & Depreciation	1,123,701	1,305,547
	$ 1,258,824	$ 1,449,810

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2019, is summarized as follows:

	Balance 12/31/2018	Additions	Retirements	Balance 12/31/2019
Non-Depreciable Assets:				
Land and land rights	$ 66,580	$ 234,281	$ -	$ 300,861
Depreciable Assets:				
Total capital assets being depreciated	14,881,674	163,773	-	15,045,447
Total accumulated depreciation	(6,628,152)	(384,291)	-	(7,012,443)
Total capital assets being depreciated, net	8,253,522	(220,518)	-	8,033,004
Capital assets, net	$ 8,320,102	$ 13,763	$ -	$ 8,333,865

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2018, is summarized as follows:

	Balance 12/31/2017	Additions	Retirements	Balance 12/31/2018
Non-Depreciable Assets:				
Land and land rights	$ 60,580	$ 6,000	$ -	$ 66,580
Depreciable Assets:				
Total capital assets being depreciated	14,769,479	112,195	-	14,881,674
Total accumulated depreciation	(6,236,000)	(392,152)	-	(6,628,152)
Total capital assets being depreciated, net	8,533,479	(279,957)	-	8,253,522
Capital assets, net	$ 8,594,059	$ (273,957)	$ -	$ 8,320,102

During the years ended December 31, 2019 and 2018, the District capitalized $-0- and $-0- of interest.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 5 – LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

	Note and Bond Payable		Sinking Fund
Year	Principal	Interest	Requirements
2020	103,583	87,919	191,502
2021	104,000	83,685	187,685
2022	109,083	79,274	188,357
2023	114,083	75,977	190,060
2024	119,083	72,522	191,605
2025 - 2029	646,833	289,841	936,674
2030 - 2034	637,916	158,516	796,432
2035 - 2039	378,003	49,527	427,530
2040 - 2044	44,333	13,098	57,431
2045 - 2049	48,500	6,918	55,418
2050 - 2051	20,500	839	21,339
Total	$ 2,325,917	$ 918,116	$ 3,244,033

Changes in long-term obligations during the year ended December 31, 2019 were:

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	$ 227,000	$ -	$ (4,000)	$ 223,000	$ 4,000
Note Payable	2,197,500	-	(94,583)	2,102,917	99,583
Unamortized Premium	11,614	-	(811)	10,803	(811)
Total	2,436,114	-	(99,394)	2,336,720	102,772
Other Liabilities:					
Customer Deposits	129,967	7,637	-	137,604	20,641
Long-Term Liabilities	$ 2,566,081	$ 7,637	$ (99,394)	$ 2,474,324	$ 123,413

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term obligations during the year ended December 31, 2018 were:

	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	$ 231,000	$ -	$ (4,000)	$ 227,000	$ 4,000
Note Payable	2,287,500	-	(90,000)	2,197,500	94,583
Unamortized Premium	12,425	-	(811)	11,614	(811)
Total	2,530,925	-	(94,811)	2,436,114	97,772
Other Liabilities:					
Customer Deposits	127,124	2,843	-	129,967	19,495
Long-Term Liabilities	$ 2,658,049	$ 2,843	$ (94,811)	$ 2,566,081	$ 117,267

Information relating to the outstanding bond and notes is summarized below:

Date of Issue	Interest Rate	Original Amount of Each Issue	Bonds and Notes Payable Outstanding December 31, 2019	2018
2012 Bond Series A	2.75%	$ 245,000	$ 223,000	$ 227,000
2012 Note Series A	2.0 - 3.625	2,680,000	2,102,917	2,197,500

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

Revenue Fund
All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

Bond Reserve Fund
This fund shall receive $1,605, a monthly rental, until an amount of $204,300 is reached. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. This account was fully funded at December 31, 2019 and 2018. The bond and interest redemption funds and bond reserve fund are maintained together in a single bank account and certificates of deposit.

Operation and Maintenance Fund
This fund receives, on a monthly basis, 90 percent of the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Reserve Fund.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Depreciation Fund
This fund receives, on a monthly basis, 10 percent of the remaining balance in the Revenue Fund after the above transfers have been made and the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment. This account is funded until it reaches a balance of $25,500. This account was fully funded at December 31, 2019 and 2018.

Full-time employees of the District are entitled to paid vacation and paid personal days depending upon length of service. Personal days must be used within the period earned. Vacation days may be carried forward.

NOTE 6 - RETIREMENT PLAN

Plan Description
The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements, required supplementary information and detailed information about CERS. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided
The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly has the authority to increase, suspend or reduce COLAs. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

Contributions
For the calendar year ended December 31, 2019, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were 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 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.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 6 - RETIREMENT PLAN (CONTINUED)

The District's contractually required contribution rate for the calendar year ended December 31, 2019, was 16.22 percent of creditable compensation from January 1 to June 30 and 19.30 percent of creditable compensation from July 1 to December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2018, was 14.48 percent of creditable compensation from January 1 to June 30 and 16.22 percent of creditable compensation from July 1 to December 31. Contributions to the pension plan for the years ended December 31, 2019 and 2018 from the District were $51,786 and $50,801.

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

At December 31, 2019, the District reported a liability of $665,396 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 using standard roll-forward techniques. 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, actuarially determined. At June 30, 2019, the District's proportion was 0.009461 percent, which was a decrease of .002758 percent from its proportion measured as of June 30, 2018.

For the years ended December 31, 2019 and 2018, the District recognized pension expense of $51,786 and $50,801. At December 31, 2019 and 2018, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 16,990	$ 2,811
Changes in actuarial assumptions	67,346	-
Difference between projected and actual investment earnings	12,773	23,499
Changes in proportionate and proportionate share of contributions	6,477	136,949
	$ 103,586	$ 163,259

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 24,273	$ 10,893
Changes in actuarial assumptions	72,727	-
Difference between projected and actual investment earnings	34,605	43,528
Changes in proportionate and proportionate share of contributions	21,625	53,458
	$ 153,230	$ 107,879

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NOTE 6 - RETIREMENT PLAN (CONTINUED)

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Amortization Amount
2020	$ (12,539)
2021	(37,096)
2022	(10,800)
2023	762
2024	-
	$ (59,673)

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

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.25 percent
Inflation	2.30 percent
Salary increases	3.05 percent, to 10.30, including inflation
Investment rate of return	6.25 percent, 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 (setback 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 6 - RETIREMENT PLAN (CONTINUED)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	18.75%	4.30%
Non- U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/ High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	20.00%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. 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 actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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 percent, 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 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liablility	$ 832,222	$ 216,928	$ 526,349

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 6 - RETIREMENT PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN

Plan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky and is a cost-sharing multiple-employer defined benefit plan. CERS provides other post-employment benefits to plan members and beneficiaries. The Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov.The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. 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.

Benefits Provided

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be $10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

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NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

Contributions

For the fiscal year ended June 30, 2019, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were 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 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.

The District's contractually required contribution rate for the calendar year ended December 31, 2019, was 5.26 percent of creditable compensation from January 1 to June 30 and 4.76 percent of creditable compensation from July 1 to December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2018, was 4.70 percent of creditable compensation from January 1 to June 30 and 5.26 percent of creditable compensation from July 1 to December 31. Contributions to the OPEB plan from the District were $14,530 for the period ended December 31, 2019 and $17,787 for the year ended December 31, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2019, the District reported a liability of $159,096 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2019, the District's proportion was 0.009459 percent, which was a decrease of .002759 percent from its proportion measured as of June 30, 2018.

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LARUE COUNTY WATER DISTRICT NO.1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

For the years ended December 31, 2019 and 2018, the District recognized OPEB expense of $14,530 and $17,787. At December 31, 2019 and 2018, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 48,003
Changes in actuarial assumptions	47,078	315
Difference between projected and actual investment earnings	1,048	8,114
Changes in proportionate and proportionate share of contributions	-	60,080
	$ 48,126	$ 116,512

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 25,280
Changes in actuarial assumptions	43,324	501
Difference between projected and actual investment earnings	-	14,942
Changes in proportionate and proportionate share of contributions	-	23,262
	$ 43,324	$ 63,985

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending December 31	Amortization Amount
2020	$ (13,420)
2021	(13,420)
2022	(11,173)
2023	(15,449)
2024	(12,260)
Thereafter	(2,664)
	$ (68,386)

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LARUE COUNTY WATER DISTRICT NO.1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

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:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05% to 11.55%, including inflation
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
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 11 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.
Municipal Bond Index Rate	3.13%
Discount Rate	5.68%

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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 — June 30, 2018.

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

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NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

The projection of cash flows used to determine the discount rate of 5.68% 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. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.68%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

	1% Decrease (4.68%)	Current Discount Rate (5.68%)	1% Increase (6.68%)
District's proportionate share of the net OPEB liablility	$ 213,123	$ 159,096	$ 114,581

Sensitivity Of The District's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Healthcare Cost Trend Rates

The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liablility	$ 118,321	$ 159,096	$ 208,541

OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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NOTE 8 - MAJOR SUPPLIERS

The District purchases water for resale from approximately six suppliers with Hodgenville Waterworks, Bardstown Water District and Green River Valley Water District accounting for approximately ninety percent of the water supplied. Inability to obtain water from any of these suppliers could have a materially adverse effect on the District.

NOTE 9 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2019 and 2018:

Source	2019	2018
Tap fees	$ 68,273	$ 49,680
	$ 68,273	$ 49,680

NOTE 10 – 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; and natural disasters. The District was insured for workers' compensation, general liability coverage under a retrospectively rated commercial policy.

NOTE 11 – ECONOMIC DEPENDENCY

The District obtains a majority of its revenues from customer in Larue County, Kentucky. An economic downturn in the area could have a negative impact on the financial condition of the District.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 12 – ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

The District is subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulating entities. Accordingly, the District records these future economic benefits and obligations as regulatory assets and regulatory liabilities.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;

2. The regulated rates must be designed to recover the specific entities cost of providing the regulated services;

3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that the rates set at levels that will recover the entities' cost can be charged to and collected from customers.

Based on the District's management evaluation of the three criteria discussed above in relation to its operations, and the effects of competition on its ability to recover its costs, the District believes that GASB Statement No. 62 continues to apply.

REQUIRED SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

December 31, 2019

Last 10 Years *

	2019	2018	2017	2016	2015
Proportion of the net pension liability	0.009461%	0.012219%	0.013774%	0.012709%	0.012228%
Proportionate share of the net pension liability	$ 665,396	$ 744,174	$ 806,235	$ 625,744	$ 525,737
Covered - employee payroll	$ 242,312	$ 327,296	$ 344,813	$ 317,292	$ 302,077
Proportionate share of the net pension liability as percentage of covered payroll	274.6%	227.4%	233.8%	197.2%	174.0%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.30%	55.50%	59.97%

* Calendar year 2015 was the first year of implementation, therefore, only five years are shown.

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY

December 31, 2019

Last 10 Years *

	2019	2018
Proportion of the net pension liability	0.945900%	0.012218%
Proportionate share of the net pension liability	$ 159,096	$ 216,928
Covered - employee payroll	$ 242,312	$ 327,296
Proportionate share of the net pension liability as percentage of covered payroll	65.7%	66.3%
Plan fiduciary net position as a percentage of the total pension liability	60.44%	57.62%

* Calendar year 2018 was the first year of implementation, therefore, only two years are shown.

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

December 31, 2019

Last 10 Years *

	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 51,786	$ 52,128	$ 46,106	$ 38,490	$ 29,948
Contribution in relation to the actuarially determined contributions	51,786	52,128	46,106	38,490	29,948
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 290,560	$ 329,796	$ 324,007	$ 290,717	$ 282,008
Contributions as a percentage of covered employee payroll	17.82%	15.81%	14.23%	13.24%	10.62%

* Calendar year 2015 was the first year of implementation, therefore, only five years are shown.

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

December 31, 2019

Last 10 Years *

	2019	2018
Contractually required contribution (actuarially determined)	$ 14,530	$ 16,475
Contribution in relation to the actuarially determined contributions	14,530	16,475
Contribution deficiency (excess)	$ -	$ -
Covered employee payroll	$ 290,560	$ 329,796
Contributions as a percentage of covered employee payroll	5.00%	5.00%

* Calendar year 2018 was the first year of implementation, therefore, only two years are shown.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2019

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2019.

Changes of assumptions (as of June 30 of the year measurement date):

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-2000Combined 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.

2016 and 2017- No changes.

2018- The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2019- Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 or 2019.

Changes of assumptions (as of June of the year measurement date):

2018- The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2019- The discount rate was changed from 5.85% to 5.68%. Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTS

DECEMBER 31, 2019

	2012 SERIES A BOND PAYABLE		2012 SERIES F NOTE PAYABLE	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2020	4,000	6,133	99,583	81,786
2021	4,000	6,023	100,000	77,662
2022	4,500	5,912	104,583	73,362
2023	4,500	5,789	109,583	70,188
2024	4,500	5,665	114,583	66,857
2025	5,000	5,541	119,583	63,362
2026	5,000	5,404	124,583	58,340
2027	5,000	5,266	129,583	52,983
2028	5,500	5,129	139,167	47,411
2029	5,500	4,978	107,917	41,427
2030	5,500	4,826	114,167	36,786
2031	6,000	4,675	119,583	31,877
2032	6,000	4,428	120,000	26,735
2033	6,000	4,345	124,583	22,537
2034	6,500	4,180	129,583	18,127
2035	6,500	4,001	134,583	13,378
2036	7,000	3,823	89,167	8,278
2037	7,000	3,630	39,167	4,792
2038	7,500	3,438	39,586	3,255
2039	7,500	3,231	40,000	1,701
2040	7,500	3,025	3,333	131
2041	8,000	2,819		
2042	8,000	2,599		
2043	8,500	2,379		
2044	9,000	2,145		
2045	9,000	1,898		
2046	9,500	1,650		
2047	9,500	1,389		
2048	10,000	1,128		
2049	10,500	853		
2050	10,500	564		
2051	10,000	275		
	$ 223,000	$ 117,141	$ 2,102,917	$ 800,975

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31, 2019	YEARS ENDED DECEMBER 31, 2018
Retirement expense	$ 66,316	$ 68,588
Insurance - health	45,177	52,195
Auto expense	27,065	33,828
Office supplies and postage	31,147	25,391
Payroll expense	20,718	25,076
Other general and administrative	25,915	46,062
Insurance - general liability	17,003	18,009
Professional fees	39,715	18,862
Insurance - workmens' compensation	13,970	16,570
Commissioners' salaries	10,800	10,800
Regulatory commission expense & other taxes	7,043	2,784
Training	1,670	1,753
	$ 306,539	$ 319,918

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2019

WATER COMMISSIONERS
John Detre – Chairman
Pat Eastridge – Secretary/Treasurer
Bobby Garrison – Member

APPROVING BOND COUNSEL
Rubin & Hays - Louisville, Kentucky

CALENDAR YEAR
January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE

HCA
Heartland CPAs and Advisors PLLC

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

Board of Commissioners
Larue County Water District No. 1
Buffalo, 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 Larue County Water District No. 1, as of and for the year ended December 31, 2019, and have issued our report thereon dated June 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Larue County Water District No. 1'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 Larue County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Larue County Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is 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 by 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001, 2019-002, and 2019-003 that we consider to be material weaknesses.

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713 McDowell Blvd. / Bardstown, KY 40004 / Phone 502-348-1433 / Fax 502-349-6365

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Larue County Water District No. 1's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2019-004.

Larue County Water District No.1's Responses to Findings

Larue County Water District No. 1's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. Larue County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended 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 District'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.

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
June 24, 2020

LARUE COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

REFERENCE NUMBER 2019-001 PREPARATION OF FINANCIAL STATEMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Cause: The District has financial personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Views of Responsible Officials: The District has made strides in this area and is continuously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

REFERENCE NUMBER 2019-002 FINANCIAL STATEMENT PRESENTATION

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Cause: The District has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Views of Responsible Officials: It would be beneficial to have financial training.

REFERENCE NUMBER 2019-003 SEGREGATION OF DUTIES

Criteria: The District's management is responsible for establishing and maintaining proper segregation of duties. In order to maintain proper segregation of duties District requires two signatures on checks for certain disbursements. Due to the limited number of personnel the District requires the signature of a commissioner on said checks along with the District's management.

Condition: As part of the audit we noted there were blank checks signed by a commissioner kept at the District. The checks contained only the signature of the commissioner.

Cause: The District had blank checks signed by commissioner so that items could be paid in the commissioner's absence.

Effect: The signature policy was not followed which could result in unapproved disbursements.

Recommendation: We recommend that checks be signed by the commissioner after the date; amount and vendor fields have been completed. Additionally, the invoice that supports the check should be present with the check at the time the commissioner signs the check.

Views of Responsible Officials: Management will bring this item before the board for further review.

REFERENCE NUMBER 2019-004 INADEQUATE COLLATERAL OF DEPOSITS

Criteria: The District's management is responsible for ensuring deposits are adequately collateralized in the event financial institutions holding those deposits become insolvent. KRS 41.240 requires governments to have adequate collateral in for all deposits.

Condition: As part of the audit of the audit we noted deposits at a certain financial institution that exceeded the FDIC statutory amounts but the remaining amounts were not collateralized.

Cause: Deposits in excess of FDIC insurance limits were not collateralized.

Effect: The District was at risk of losing cash balances if the financial institution failed.

Recommendation: We recommend the District diversify deposits to more financial institutions in a manner that prevents deposits from exceeding FDIC insurance limits or obtain third-party collateral for the amount of deposits in excess of FDIC insurance limits.

Views of Responsible Officials: Management will bring this item before the board for further review.