

Laurel County Water District No. 2
London, Kentucky

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Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2020 and 2019

Laurel County Water District No. 2
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Independent Auditors' Report

To the Commissioners
Laurel County Water District No. 2
London, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Laurel County Water District No. 2, (the District), as of and for the years ended December 31, 2020 and 2019, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Laurel County Water District No. 2, as of December 31, 2020 and 2019, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of the District's Proportionate Share of the Net OPEB Liability, the Schedule of District's Pension Contributions, and the Schedule of the District's OPEB Contributions on pages 33-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2021 on our consideration of Laurel County Water District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Laurel County Water District No. 2's internal control over financial reporting and compliance.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

September 21, 2021

Laurel County Water District No. 2
Statements of Net Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,457,470	\$ 931,783
Receivables, less allowance	308,882	194,711
Unbilled accounts receivable	159,640	126,043
Grants receivable	-	533,045
Inventories	135,939	98,062
Prepaid expenses	19,359	18,934
Other current assets	38	38
Total Current Assets	<u>2,081,328</u>	<u>1,902,616</u>
Noncurrent Assets		
Restricted Assets		
Customer deposits	117,389	103,849
Grant monies	35,678	218,722
Depreciation reserves - cash	318,028	429,360
Depreciation reserves - certificates of deposit	125,100	125,100
Bond and interest funds	<u>298,233</u>	<u>201,691</u>
Total Restricted Assets	<u>894,428</u>	<u>1,078,722</u>
Capital Assets, Net of Depreciation	<u>20,401,491</u>	<u>17,173,961</u>
Total Noncurrent Assets	<u>21,295,919</u>	<u>18,252,683</u>
Total Assets	<u>23,377,247</u>	<u>20,155,299</u>
Deferred Outflows of Resources		
Bond issuance costs, net of amortization	169,623	4,630
Net differences between projected and actual earnings on pension plan investments	57,351	-
Differences between expected and actual experience related to pensions	57,151	54,849
Changes of assumptions related to pensions	89,493	217,420
Changes of assumptions related to OPEB	125,467	151,980
Changes in proportion and differences between employer pension contributions and proportionate share of contributions	40,487	131,573
Net differences between projected and actual earnings on OPEB plan investments	23,974	-
Differences between expected and actual experience related to OPEB	120,517	-
Changes in proportion and differences between employer OPEB contributions and proportionate share of contributions	45,154	58,746
Pension contributions subsequent to measurement date	73,104	74,485
OPEB contributions subsequent to measurement date	<u>18,030</u>	<u>18,370</u>
Total Deferred Outflows of Resources	<u>820,351</u>	<u>712,053</u>

Laurel County Water District No. 2
Statements of Net Position (Cont'd)
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Liabilities		
Current Liabilities		
Accounts payable	48,949	37,481
Accounts payable - construction	355,375	808,770
Accrued interest payable	42,237	153
Accrued salaries and taxes payable	33,749	36,216
Current portion of notes payable and long-term debt	93,210	177,650
Other current liabilities	90,331	63,875
Total Current Liabilities	<u>663,851</u>	<u>1,124,145</u>
Noncurrent Liabilities		
Customer deposits	106,925	99,335
Net pension liability	2,291,848	2,148,173
Net OPEB liability	721,318	513,602
Bond premium	219,565	-
Notes payable and long-term debt, less current portion	11,210,917	9,252,868
Total Noncurrent Liabilities	<u>14,550,573</u>	<u>12,013,978</u>
Total Liabilities	<u>15,214,424</u>	<u>13,138,123</u>
Deferred Inflows of Resources		
Differences between expected and actual experience related to pensions	-	9,077
Differences between expected and actual experience related to OPEB	120,611	154,966
Net differences between projected and actual earnings on pension plan investments	-	34,630
Net differences between projected and actual earnings on OPEB plan investments	-	22,812
Changes of assumptions related to OPEB	763	1,016
Changes in proportion and differences between employer contributions and proportionate share of pension contributions	24,538	-
Changes in proportion and differences between employer contributions and proportionate share of OPEB contributions	11,619	729
Total Deferred Inflows of Resources	<u>157,531</u>	<u>223,230</u>
Net Position		
Net investment in capital assets	9,097,364	7,743,443
Restricted	894,428	1,078,722
Unrestricted	(1,166,149)	(1,316,166)
Total Net Position	<u>\$ 8,825,643</u>	<u>\$ 7,505,999</u>

Laurel County Water District No. 2
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Water sales	\$ 2,901,974	\$ 2,261,170
Service charges	82,669	118,146
Tap fees	46,299	39,091
Penalties	11,707	43,872
Other revenues	5,545	14,596
	<hr/>	<hr/>
Total Operating Revenues	3,048,194	2,476,875
	<hr/>	<hr/>
Operating Expenses		
Salaries and wages	834,759	877,622
Employee benefits	937,561	957,455
Purchased power	146,570	119,556
Utilities	17,692	16,831
Chemicals	66,343	65,583
Materials and supplies	62,651	62,571
Contracted services	48,091	56,416
Vehicle and equipment expenses	23,261	26,326
Insurance	20,111	24,127
Bad debt expense, net of recoveries	10,557	11,101
Depreciation	539,451	475,535
Amortization	6,092	282
Other operating expenses	95,575	90,450
	<hr/>	<hr/>
Total Operating Expenses	2,808,714	2,783,855
	<hr/>	<hr/>
Operating Income (Loss)	239,480	(306,980)
	<hr/>	<hr/>
Non-operating Revenues (Expenses)		
Interest income	3,141	3,232
Grant revenue	1,387,417	1,165,785
Rental income	15,129	15,866
Gain (loss) on disposition of equipment	-	548
Interest expense	(325,523)	(352,405)
	<hr/>	<hr/>
Total Non-operating Revenues (Expenses)	1,080,164	833,026
	<hr/>	<hr/>
Change in Net Position	1,319,644	526,046
	<hr/>	<hr/>
Beginning Net Position	7,505,999	6,979,953
	<hr/>	<hr/>
Net Position, End of Year	<u>\$ 8,825,643</u>	<u>\$ 7,505,999</u>

Laurel County Water District No. 2
 Statements of Cash Flows
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,896,544	\$ 2,465,673
Receipts from other activities	5,545	14,596
Payments to employees	(1,432,400)	(1,476,493)
Payments to suppliers	(343,415)	(388,327)
Payments for other activities	<u>(95,173)</u>	<u>(90,434)</u>
Net Cash Provided by Operating Activities	<u>1,031,101</u>	<u>525,015</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(4,220,376)	(745,606)
Proceeds from sales of property, plant and equipment	-	4,322
Proceeds from debt	8,083,943	-
Principal payments on debt	(5,990,650)	(170,379)
Interest payments on debt	(325,523)	(352,405)
Bond issuance costs	(175,833)	-
Federal and state grants	1,920,462	691,578
Other receipts	<u>15,129</u>	<u>15,866</u>
Net Cash Used by Capital and Related Financing Activities	<u>(692,848)</u>	<u>(556,624)</u>
Cash Flows From Investing Activities		
Interest on certificates of deposits	<u>3,140</u>	<u>3,232</u>
Net Cash Provided by Investing Activities	<u>3,140</u>	<u>3,232</u>
Net Increase (Decrease) in Cash and Cash Equivalents	341,393	(28,377)
Cash and Cash Equivalents at Beginning of Year	<u>1,885,405</u>	<u>1,913,782</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,226,798</u>	<u>\$ 1,885,405</u>
Reconciliation of cash per Statements of Net Position to cash per Statements of Cash Flows:		
Cash and cash equivalents	\$ 1,457,470	\$ 931,783
Restricted cash and cash equivalents:		
Customer deposits	117,389	103,849
Grant monies	35,678	218,722
Depreciation reserves-cash	318,028	429,360
Bond and interest funds	<u>298,233</u>	<u>201,691</u>
Cash and Equivalents per Statements of Cash Flows	<u>\$ 2,226,798</u>	<u>\$ 1,885,405</u>

See accompanying notes to financial statements.

Laurel County Water District No. 2
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 239,480	\$ (306,980)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	545,543	475,817
(Increase) decrease in operating assets		
Accounts receivable	(147,768)	10,895
Inventory	(37,877)	10,514
Prepaid expenses	(425)	(4,914)
Deferred pension & OPEB outflows	61,325	10,190
Increase (decrease) in operating liabilities		
Accounts payable	11,468	(27,242)
Accrued expenses	66,073	8,048
Customer deposits	7,590	3,600
Deferred pension & OPEB inflows	(65,699)	67,160
Net pension & OPEB liabilities	351,391	277,927
	<u>\$ 1,031,101</u>	<u>\$ 525,015</u>
Net Cash Provided by Operating Activities	<u>\$ 1,031,101</u>	<u>\$ 525,015</u>

See accompanying notes to financial statements.

Laurel County Water District No. 2
Notes to Financial Statements
December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Laurel County Water District No. 2, of Laurel County, Kentucky (“District”) was created in 1963 under Chapter 74 of the Kentucky Revised Statutes. The District is governed by a five-person Board of Commissioners appointed by the Laurel County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

Laurel County Water District No. 2’s financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. There are no other entities that are subject to the District’s oversight responsibility as indicated above.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The District applies all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the District as a whole. These statements include all funds of the District. The statements distinguish between governmental and business-type activities. The District does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The District considers demand deposits and certificates of deposits with maturities of 90 days or less to be cash equivalents.

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Expenses

Inventories consist of expendable supplies held for consumption stated on a weighted average cost basis. They are reported at cost and are recorded as an expenditure at the time individual items are used. Prepaid expenses include payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

The District's property, plant and equipment with useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Asset Classification	Range of Lives
Structures and improvements	35-40 years
Transmission distribution mains	50-75 years
Plant equipment	20-60 years
Meters and services	30-60 years
Other equipment and vehicles	7-25 years

Accounts Receivable

Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed. Billing is completed monthly and accounts are considered past due on the sixteenth day after the end of each billing period. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 90 days. The balance of the allowance at December 31, 2020 and 2019 was \$10,000.

Unbilled Accounts Receivable

Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year.

Net Position

Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District would typically use restricted assets first, but reserves the right to selectively spend unrestricted assets first.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions and OPEB

For purposes of measuring net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB 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. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The plan's financial statements are prepared using the accrual basis of accounting and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) that apply to governmental accounting for fiduciary funds. Investments are reported at fair value.

Reclassifications

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the current year's format. Total net position and change in net position are unchanged due to these reclassifications.

Note 2 – Restricted Assets

Under the terms of all loan resolutions, the District is required to maintain certain accounts and funds for the benefit and protection of the creditors. In addition, the District is also required to collect reasonable and sufficient rates and charges for services rendered, prohibited from selling, leasing or mortgaging any part of the system without prior approval, required to maintain the operating system in good condition and to carry adequate insurance on all properties to protect against loss or damage.

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 2 – Restricted Assets (Continued)

The resolutions require the District to establish a depreciation fund or reserve to be used to finance the cost of unusual repairs, renewals and replacements not included in the annual budget and to pay for future system extensions. The balance of these accounts at December 31, 2020 and 2019 was \$741,361 and \$756,151, respectively. Restricted assets also include customer deposits of \$117,389 and \$103,849 held at December 31, 2020 and 2019, respectively and grant monies of \$35,678 and \$218,722 held at December 31, 2020 and 2019, respectively.

Note 3 – Kentucky Revised Statute

At December 31, 2020 and 2019, all of the cash of the District was covered by federal depository insurance and securities pledged as collateral on behalf of the District. In accordance with Kentucky Revised Statute (KRS) 91A.060, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), financial institutions shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS 91A.060, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, interest bearing deposits of insured savings and loans, or interest bearing deposits of insured national or state banks. For additional cash descriptive information, see Note 1.

Note 4 – Concentrations of Credit Risks

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2020 and 2019, \$2,011,977 and \$1,848,300, respectively, of the District's total deposits at banks of \$2,511,977 and \$2,348,300, respectively, were exposed to custodial credit risk as follows:

	<u>2020</u>	<u>2019</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	2,011,977	1,848,300
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	<u>\$ 2,011,977</u>	<u>\$ 1,848,300</u>

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2020:

	Balance Dec. 31, 2019	Additions	Dispositions	Balance Dec. 31, 2020
Land and improvements	\$ 517,484	\$ -	\$ -	\$ 517,484
Building and improvements	694,276	2,750	-	697,026
Source of supply and pumping	3,560,392	-	-	3,560,392
Water treatment equipment	124,722	-	-	124,722
Transmission and distribution plant	17,899,238	2,941,648	-	20,840,886
Vehicles and other equipment	1,308,996	6,880	-	1,315,876
Construction in progress	1,140,294	3,624,427	2,808,724	1,955,997
Totals at historical cost	<u>25,245,402</u>	<u>6,575,705</u>	<u>2,808,724</u>	<u>29,012,383</u>
Less accumulated depreciation for:				
Land and improvements	10,846	1,388	-	12,234
Building and improvements	470,532	8,479	-	479,011
Source of supply and pumping	836,602	66,721	-	903,323
Water treatment equipment	106,350	2,163	-	108,513
Transmission and distribution plant	5,935,766	381,323	-	6,317,089
Vehicles and other equipment	711,345	79,377	-	790,722
Total accumulated depreciation	<u>8,071,441</u>	<u>539,451</u>	<u>-</u>	<u>8,610,892</u>
Capital assets - net	<u>\$ 17,173,961</u>	<u>\$ 6,036,254</u>	<u>\$ 2,808,724</u>	<u>\$ 20,401,491</u>

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 5 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2019:

	Balance Dec. 31, 2018	Additions	Dispositions	Balance Dec. 31, 2019
Land and improvements	\$ 511,494	\$ 5,990	\$ -	\$ 517,484
Building and improvements	694,276	-	-	694,276
Source of supply and pumping	3,560,392	-	-	3,560,392
Water treatment equipment	124,722	-	-	124,722
Transmission and distribution plant	15,376,157	2,561,083	38,002	17,899,238
Vehicles and other equipment	1,244,151	91,223	26,378	1,308,996
Construction in progress	2,341,410	1,140,294	2,341,410	1,140,294
Totals at historical cost	<u>23,852,602</u>	<u>3,798,590</u>	<u>2,405,790</u>	<u>25,245,402</u>
Less accumulated depreciation for:				
Land and improvements	9,587	1,259	-	10,846
Building and improvements	462,008	8,524	-	470,532
Source of supply and pumping	769,879	66,723	-	836,602
Water treatment equipment	103,346	3,004	-	106,350
Transmission and distribution plant	5,650,689	319,305	34,228	5,935,766
Vehicles and other equipment	661,003	76,720	26,378	711,345
Total accumulated depreciation	<u>7,656,512</u>	<u>475,535</u>	<u>60,606</u>	<u>8,071,441</u>
Capital assets - net	<u>\$ 16,196,090</u>	<u>\$ 3,323,055</u>	<u>\$ 2,345,184</u>	<u>\$ 17,173,961</u>

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 6 – Notes Payable and Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2020:

	Balance <u>Dec. 31, 2019</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>Dec. 31, 2020</u>	Due Within <u>One Year</u>
Loan payable to Kentucky Infrastructure Authority, principal and interest at the rate of 1.6%, payable on a semi-annual basis, with final payment due December 1, 2025.	\$ 116,518	\$ -	\$ 17,150	\$ 99,368	\$ 17,425
Loan payable to Kentucky Infrastructure Authority, principal and interest at the rate of 0.5%, payable on a semi-annual basis, with final payment due December 1, 2049.	-	445,000	-	445,000	13,785
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2036; interest payable on semi-annual basis at the rate of 4.5%.	354,500	-	354,500	-	-
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2051. Interest payable on semi-annual basis at the rate of 4.125%.	5,559,000	-	5,559,000	-	-
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2051. Interest payable on semi-annual basis at the rate of 3.00%.	2,074,000	-	40,000	2,034,000	41,000
Loan payable to Kentucky Rural Water Finance Corporation, payable annually in varying principal amounts, with final payment due January 1, 2051. Interest payable on semi-annual basis at the rate ranging from 2.00% to 4.00%.	-	5,815,000	-	5,815,000	-
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2058. Interest payable on semi-annual basis at the rate of 2.75%.	1,326,500	-	20,000	1,306,500	21,000
Interim financing loan payable for construction project.	-	1,604,259	-	1,604,259	-
	<u>\$ 9,430,518</u>	<u>\$ 7,864,259</u>	<u>\$ 5,990,650</u>	<u>\$ 11,304,127</u>	<u>\$ 93,210</u>

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 6 – Notes Payable and Long-Term Debt (Continued)

During 2020, the District entered into interim financing for the construction of approximately two miles of water line and a new water tank. At December 31, 2020, draws against this loan totaled \$1,604,259. The project was finished during 2021 at which time the total amount of the loan of \$2,200,000 was placed on permanent financing.

The following is a summary of long-term debt transactions for the year ended December 31, 2019:

	<u>Balance</u> <u>Dec. 31, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to Kentucky Infrastructure Authority, principal and interest at the rate of 1.6%, payable on a semi-annual basis, with final payment due December 1, 2025.	\$ 133,397	\$ -	\$ 16,879	\$ 116,518	\$ 17,150
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2036; interest payable on semi-annual basis at the rate of 4.5%.	368,000	-	13,500	354,500	14,500
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2051. Interest payable on semi- annual basis at the rate of 4.125%.	5,641,000	-	82,000	5,559,000	86,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2051. Interest payable on semi- annual basis at the rate of 3.00%.	2,112,500	-	38,500	2,074,000	40,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2058. Interest payable on semi- annual basis at the rate of 2.75%.	1,346,000	-	19,500	1,326,500	20,000
	<u>\$ 9,600,897</u>	<u>\$ -</u>	<u>\$ 170,379</u>	<u>\$ 9,430,518</u>	<u>\$ 177,650</u>

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 6 – Notes Payable and Long-Term Debt (Continued)

All revenues from water sales are pledged as collateral on the loans payable to the Kentucky Infrastructure Authority.

The aggregate annual principal repayments on long-term debt, excluding the interim financing, are summarized as follows:

<u>Due the year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 93,210	\$ 252,777	\$ 345,987
2022	230,559	273,229	503,788
2023	237,913	265,094	503,007
2024	249,771	256,577	506,348
2025	257,134	247,692	504,826
2026-2030	1,334,273	1,097,251	2,431,524
2031-2035	1,545,180	861,792	2,406,972
2036-2040	1,604,531	663,316	2,267,847
2041-2045	1,782,928	449,634	2,232,562
2046-2050	2,009,870	196,008	2,205,878
2051-2055	248,000	32,080	280,080
2056-2060	106,499	2,908	109,407
	<u>\$ 9,699,868</u>	<u>\$ 4,598,358</u>	<u>\$ 14,298,226</u>

Note 7 – Retirement Plan

Laurel County Water District No. 2 is a participating employer of the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement Systems administers CERS, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630. The assets of the system are segregated by plan (KERS, CERS, and SPRS), where each system's assets are used only for the payment of benefits to the members of that plan and a pro rata share of administrative costs. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Retirement Systems website or may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description

CERS is a cost sharing, multiple-employer, defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Benefits Provided

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the District. All employees meeting the requirements for membership are required to contribute a percentage of their gross wages. For the years ended December 31, 2020 and 2019, plan members in non-hazardous positions were required to contribute 5% of the employee's total compensation subject to contribution. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565, normal contribution and past service contribution rates shall be determined by the Kentucky Retirement Systems Board of Trustees on the basis of the annual actuarial valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of July 1 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 in accordance with the actuarial basis adopted by the Board. The District's required contribution rates for the year ended December 31, 2020 were 24.06% (January through June 2020) and 24.06% (July through December 2020). The District's required contribution rates for the year ended December 31, 2019 were 21.48% (January through June 2019) and 24.06% (July through December 2019). Required contribution rates were actuarially determined and adopted by the Kentucky Retirement Systems Board of Trustees. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. A Cash Balance Plan resembles a defined contribution plan because it determines the value of benefits for each participant based on individual accounts. However, the assets of the plan remain in a single investment pool like a traditional defined benefit plan. A Cash Balance Plan resembles a defined benefit plan since it uses a specific formula to determine benefits. Members and employers contribute specified percentages of the member's wages each month to the member's account. Non-hazardous plan members are required to contribute 5% of wages to their individual account. All members are required to contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. Each month, when employer contributions are received, an Employer Pay Credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% Employer Pay Credit. The Employer Pay Credit represents a portion of the employer contribution. The account earns a guaranteed amount of interest, 4% on both the member contributions and the Employer Pay Credit balance, at the end of each fiscal year. If the member contributed to the plan during the fiscal year, there may be additional interest credit added to the member's account depending on Kentucky Retirement Systems' investment returns. This "upside" interest sharing is based on the 5-year average geometric investment return. If it exceeds 4% the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30 of the previous year. For the fiscal years ended June 30, 2020 and 2019, the interest earned on CERS non-hazardous plans was 4.97% and 5.13%, respectively.

The District's payroll for the years ended December 31, 2020, 2019, and 2018 was \$828,111, \$860,215, and \$837,633, respectively, of which \$798,111, \$823,394, and \$787,649, respectively was covered by CERS. The District's contribution requirements for CERS for the years ended December 31, 2020, 2019, and 2018 were \$192,025 (\$154,035 allocated to the CERS pension fund and \$37,990 allocated to the CERS insurance fund), \$187,342 (\$146,062 allocated to the CERS pension fund and \$41,280 allocated to the CERS insurance fund), and \$160,171 (\$120,936 allocated to the CERS pension fund and \$39,235 allocated to the CERS insurance fund), respectively. The District contributed 100% of their required contributions for the years ended December 31, 2020, 2019, and 2018.

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

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

At December 31, 2020 and 2019, the District reported a liability of \$2,291,848 and \$2,148,173, respectively for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, respectively, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of those dates. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating plan members, as actuarially determined. At the June 30, 2020 and 2019 measurement dates, the District's proportion was 0.02988% and 0.030544%, respectively.

For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). 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 (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled, "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018." The total pension liability as of June 30, 2020, was determined using these updated assumptions. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous and hazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS non-hazardous and hazardous

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

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

The District recognized pension expense of \$431,589 and \$472,352 for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 57,151	\$ -
Net difference between projected and actual investment earnings on pension plan investments	57,351	-
Changes of assumptions	89,493	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	40,487	24,538
Employer contributions subsequent to the measurement date	73,104	-
Total	<u>\$ 317,586</u>	<u>\$ 24,538</u>

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net pension liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

The \$73,104 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2021	\$ 119,345
2022	51,426
2023	26,141
2024	23,032
2025	-
Thereafter	-
Total	<u>\$ 219,944</u>

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

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

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 54,849	\$ 9,077
Net difference between projected and actual investment earnings on pension plan investments	-	34,630
Changes of assumptions	217,420	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	131,573	-
Employer contributions subsequent to the measurement date	74,485	-
Total	\$ 478,327	\$ 43,707

Actuarial Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2020:

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 Increase	3.30% to 10.30%, varies by service, for CERS non-hazardous
Investment Rate of Return	6.25%

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. 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.

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions (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 rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the CAFR.

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

The following presents the net pension liability of the District's CERS pension plan, calculated using the discount rate of 6.25 percent, as well as what the District's 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 net pension liability	\$ 282,637	\$ 2,291,848	\$ 1,849,283

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 7 – Retirement Plan (Continued)

Payable to the Pension Plan

At December 31, 2020 and 2019, the District reported payables of \$23,003 and \$19,766 for the outstanding amounts of contributions to the pension plan required for the years ended December 31, 2020 and 2019, respectively. The payables include the pension and insurance contribution allocations as well as contributions withheld from employees.

Note 8 –OPEB Plan

As a participating employer of the County Employees’ Retirement System (CERS), the District also participates in the County Employees Retirement System Insurance Fund (Insurance Fund). Under the provisions of Kentucky Revised Statute Sections 61.645 and 61.701, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Retirement Systems Insurance Fund (KERS), County Employees Retirement System (CERS) and State Police Retirement System (SPRS). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems (KERS, CERS, and SPRS). The assets of the Insurance Fund are also segregated by plan. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Retirement Systems website or may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description

CERS Insurance Fund is a cost sharing, multiple-employer, defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Plan Membership

The net OPEB liability was calculated based on the Insurance plan membership as of June 30, 2019:

Membership Status	<u>Non-Hazardous</u>
Inactive plan members currently receiving benefits	36,371
Inactive plan members entitled to but not yet receiving benefits	29,362
Active plan members	<u>81,147</u>
Total Membership	<u><u>146,880</u></u>

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

Benefits Provided

The Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Kentucky Retirement Systems 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. The Insurance Fund pays a proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. The amount of contribution paid by the Insurance Fund is based on years of service. Additional details can be found in the publicly available Kentucky Retirement Systems Comprehensive Annual Financial Report which may be downloaded from the Kentucky Retirement Systems website.

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the District. See Note 7 for a description of the District's covered payroll and contribution requirements as well as the breakdown of contributions between the pension and insurance funds.

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

At December 31, 2020 and 2019 the District reported a liability of \$721,318 and \$513,602, respectively for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020 and 2019, respectively, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of those dates. 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 plan members, as actuarially determined. At the June 30, 2020 and 2019 measurement dates, the District's proportion was and 0.02988 and 0.030536 percent, respectively.

For financial reporting the actuarial valuation as of June 30, 2020 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018." The total OPEB liability as of June 30, 2020 is determined using these updated assumptions.

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2020:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous and hazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
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.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

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

The long-term expected return was determined by using the building-block method in which best-estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same as those adopted for the CERS Pension Plan and are summarized in the table in Note 7.

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The District recognized OPEB expense of \$108,245 and \$69,701 for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 120,517	\$ 120,611
Changes of assumptions	125,467	763
Net difference between projected and actual earnings on OPEB plan investments	23,974	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	45,154	11,619
Employer contributions subsequent to the measurement date	18,030	-
Total	\$ 333,142	\$ 132,993

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net OPEB liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

The \$18,030 reported as deferred outflows of resources related to OPEB 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 related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:

	2021	\$	50,095
	2022		57,190
	2023		43,570
	2024		32,927
	2025		(1,663)
	Thereafter		-
Total		\$	182,119

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 154,966
Changes of assumptions	151,980	1,016
Net difference between projected and actual earnings on OPEB plan investments	-	22,812
Changes in proportion and differences between employer contributions and proportionate share of contributions	58,746	729
Employer contributions subsequent to the measurement date	18,370	-
Total	<u>\$ 229,096</u>	<u>\$ 179,523</u>

Investment Policy

Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the Kentucky Retirement System Board. The Board has established an Investment Committee which is specifically charged with the oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the “Prudent Person Rule” (set forth in Kentucky Revised Statute 61.650) and manage those funds consistent with the long-term nature of the systems. The Investment Committee has adopted an Investment Policy Statement (IPS) that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of Kentucky Retirement Systems. The IPS contains the specific guidelines for the investment of Pension and Insurance assets. The target allocation and best estimates of arithmetic real rates of return for each major asset class adopted by the Kentucky Retirement System Board for the Insurance Plan are the same as those adopted for the CERS Pension Plan (See Note 7).

Net OPEB Liability

The components of the net OPEB liability of the participating employers in the CERS Non-Hazardous System and the District’s proportionate share at June 30, 2020 were as follows:

	<u>Total CERS Non- Hazardous System</u>	<u>District's Proportionate Share</u>
Total OPEB liability	\$ 4,996,309,000	\$ 1,492,897
Plan fiduciary net position	(2,581,613,000)	(771,579)
Employers' Net OPEB Liability	<u>\$ 2,414,696,000</u>	<u>\$ 721,318</u>

Plan Fiduciary Net Position as a Percentage
of the Total OPEB Liability

51.67%

51.67%

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 –OPEB Plan (Continued)

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2020:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	26 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 non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous and hazardous

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.

Discount Rate

The discount rate used to measure the total OPEB liability was 5.34 percent. 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 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.

Laurel County Water District No. 2
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note 8 – OPEB Plan (Continued)

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

	1% Decrease (4.34%)	Current Discount Rate (5.34%)	1% Increase (6.34%)
District's proportionate share of net OPEB liability	\$ 926,696	\$ 721,318	\$ 552,654

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 558,489	\$ 721,318	\$ 918,939

Note 9 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Note 10 - Subsequent Events

The world-wide outbreak of COVID-19 is having a major impact on the normal business activities in the United States and the state of Kentucky. Measures taken by various entities to contain the virus have effected economic activity. Management has taken several measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our employees and customers and securing the supply of materials that are essential to operations. The Organization will continue to follow the various government policies and advice and will do its utmost to continue operations in the best and safest way possible without jeopardizing the health of its employees and customers. The District has not yet determined the impact, if any, that the COVID-19 outbreak will have on its net position, results of operations and cash flows.

Management of the District has evaluated subsequent events through September 21, 2021, the date on which the financial statements were available to be issued.

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards*

To the Commissioners
Laurel County Water District No. 2
London, 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 Audit Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Laurel County Water District No. 2 as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Laurel County Water District No. 2's basic financial statements, and have issued our report thereon dated September 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Laurel County Water District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Laurel County Water District No. 2'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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Laurel County Water District No. 2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

September 21, 2021

Laurel County Water District No. 2
Schedule of Findings and Responses
For the Year Ended December 31, 2020

A. Findings – Financial Statement Audit

There were no matters reported.

Laurel County Water District No. 2
Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees Retirement System (CERS) Pension Plan
Last Ten Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.02988%	0.03054%	0.03031%	0.02516%	0.02289%	0.02398%	0.02334%
District's proportionate share of the net pension liability (asset)	\$2,291,848	\$2,148,173	\$1,845,789	\$1,472,516	\$1,127,240	\$1,031,130	\$757,169
District's covered-employee payroll	\$805,020	\$812,959	\$787,649	\$741,387	\$590,264	\$578,096	\$598,382
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	284.69%	264.24%	234.34%	198.62%	190.97%	178.37%	126.54%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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

* The amounts presented for each year were determined (measured) as of the fiscal year-end that occurred within the calendar year.

Laurel County Water District No. 2
Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employees Retirement System (CERS) OPEB Plan
Last Ten Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability (asset)	0.02987%	0.03054%	0.03031%	0.02516%
District's proportionate share of the total OPEB liability	\$1,493,896	\$1,298,228	\$1,269,660	\$1,062,349
District's proportionate share of the plan fiduciary net position	<u>(772,578)</u>	<u>(784,626)</u>	<u>(731,601)</u>	<u>(556,607)</u>
District's proportionate share of the net OPEB liability (asset)	\$ 721,318	\$ 513,602	\$ 538,059	\$ 505,742
District's covered-employee payroll	\$ 805,020	\$ 812,959	\$ 787,649	\$ 741,387
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	89.60%	63.18%	68.31%	68.22%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.39%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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

* The amounts presented for each year were determined (measured) as of the fiscal year-end that occurred within the calendar year.

Laurel County Water District No. 2
Schedule of the District's Pension Contributions
County Employees Retirement System (CERS) Pension Plan
Last Ten Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 155,369	\$ 131,862	\$ 120,936	\$ 105,527	\$ 77,948	\$ 72,739	\$ 79,184
Contributions in relation to the contractually required contribution	<u>(155,369)</u>	<u>(131,862)</u>	<u>(120,936)</u>	<u>(105,527)</u>	<u>(77,948)</u>	<u>(72,739)</u>	<u>(79,184)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 805,020	\$ 812,959	\$ 787,649	\$ 741,387	\$ 590,264	\$ 578,096	\$ 598,382
Contributions as a percentage of covered-employee payroll	19.30%	16.22%	15.35%	14.23%	13.21%	12.58%	13.23%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size, or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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

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

* The amounts presented for each calendar year were determined as of the fiscal year-end that occurred within the calendar year.

Laurel County Water District No. 2
Schedule of the District's OPEB Contributions
County Employees Retirement System (CERS) OPEB Plan
Last Ten Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 38,319	\$ 42,762	\$ 39,235	\$ 34,949
Contributions in relation to the contractually required contribution	<u>(38,319)</u>	<u>(42,762)</u>	<u>(39,235)</u>	<u>(34,949)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 805,020	\$ 812,959	\$ 787,649	\$ 741,387
Contributions as a percentage of covered-employee payroll	4.76%	5.26%	4.98%	4.71%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size, or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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

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

* The amounts presented for each calendar year were determined as of the fiscal year-end that occurred within the calendar year.