

OHIO COUNTY WATER DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Commissioners of the Ohio County Water District
Hartford, KY 42347

We have audited the accompanying financial statements of the business-type activities of the Ohio County Water District (the "District") as of and for the years ended December 31, 2019 and 2018 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Ohio County Water District as of December 31, 2019 and 2018, and the 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 management's discussion and analysis on pages 3-6 and select pension/OPEB information on pages 28-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2020, on our consideration of the Ohio County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Ohio County Water District's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ohio County Water District's internal control over financial reporting and compliance.

Hensley & Throneberry, CPAs

June 19, 2020

**OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018**

As management of the Ohio County Water District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the business-type activities for the fiscal years ended December 31, 2019 and 2018. The information contained in this Management Discussion and Analysis ("MD&A") should be considered in conjunction with the information contained in the Independent Auditor's Reports, financial statements, and supplementary information.

Financial Highlights

For the year ending December 31, 2019, total operating and non-operating revenues (including capital contributions) totaled \$3,907,883 and expenses amounted to \$5,280,840 creating a decrease in net position of \$1,372,957. At year end, net position totaled \$18,351,769 of which \$17,588,092 (net of related debt) was invested in capital assets and \$944,806 was restricted for debt service and depreciation/replacement. This left a net deficit amount of (\$181,129) of unrestricted assets.

For the year ending December 31, 2018, total operating and non-operating revenues (including capital contributions) totaled \$4,002,385 and expenses amounted to \$4,331,324 creating a decrease in net position of \$328,939. At year end, net position totaled \$19,724,726 of which \$18,055,661 (net of related debt) was invested in capital assets and \$896,520 was restricted for debt service. This left a net amount of \$772,545 of unrestricted assets.

Overview of the Financial Statements

This report consists of MD&A and is intended to serve as an introduction to the financial statements. The financial statements include notes, which explain in detail some of the information included in the financial statements.

Required Financial Statements

The financial statements of the District report information using accounting methods similar to those used by private-sector companies. These statements offer short- and long-term financial information about its activities. The Statements of Net Position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis of evaluation of the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure the results of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The final required financial statements are the Statements of Cash Flows. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting periods.

**OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018**

Financial Analysis of Ohio County Water District

Ohio County Water District
Statements of Net Position-Summary
December 31,

	2019	2018
Assets		
Total current assets	\$ 1,050,854	\$ 1,100,001
Total restricted assets	2,940,799	3,423,174
Net capital assets	<u>29,459,058</u>	<u>30,206,017</u>
Total assets	<u>\$ 33,450,711</u>	<u>\$ 34,729,192</u>
 Deferred outflows		
Pension deferred outflow	\$ 586,631	\$ 576,759
OPEB deferred outflow	<u>260,414</u>	<u>190,395</u>
Total deferred outflows	<u>\$ 847,045</u>	<u>\$ 767,154</u>
 Liabilities		
Total current liabilities	\$ 1,111,697	\$ 1,102,849
Total long-term liabilities	<u>14,517,524</u>	<u>14,389,902</u>
Total liabilities	<u>\$ 15,629,221</u>	<u>\$ 15,492,751</u>
 Deferred inflows		
Pension deferred inflow	\$ 103,099	\$ 163,833
OPEB deferred inflow	<u>213,667</u>	<u>115,036</u>
Total deferred outflows	<u>\$ 316,766</u>	<u>\$ 278,869</u>
 Net position		
Invested in capital assets, net of related debt	\$ 17,588,092	\$ 18,055,661
Restricted for debt service	326,778	325,640
Restricted for depreciation/replacement	618,028	570,880
Unrestricted	<u>(181,129)</u>	<u>772,545</u>
Total net position	<u>\$ 18,351,769</u>	<u>\$ 19,724,726</u>

The largest portion (96% and 92% per year respectively) of the District's net position is reflected by investment in capital assets, less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to consumers; consequently, these assets are not available for future spending.

Restricted for debt service and depreciation/replacement (5% and 5% per year, respectively) represents resources that are subject to external restrictions on how they may be used.

The balance (-1% and 3%, per year respectively) of unrestricted net position may be used to meet the District's ongoing obligations to consumers and creditors.

**OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018**

Ohio County Water District
Statements of Operations-Summary
For the Year Ended December 31,

	2019	2018
Total operating revenues	\$ 3,673,955	\$ 3,678,809
Total operating expenses	<u>(4,888,928)</u>	<u>(3,905,222)</u>
Operating loss	(1,214,973)	(226,413)
Total non-operating revenue / (expenses)	<u>(332,291)</u>	<u>(371,279)</u>
Loss before capital contributions	(1,547,264)	(597,692)
Capital contributed	<u>174,307</u>	<u>268,753</u>
Change in net position	(1,372,957)	(328,939)
Net position, beginning of year	<u>19,724,726</u>	<u>20,053,665</u>
Net position, end of year	<u>\$ 18,351,769</u>	<u>\$ 19,724,726</u>

For the year ending December 31, 2019, net position decreased by \$1,372,957 and consisted of an operating loss of \$1,214,973, net non-operating expenses of \$332,291, and capital contributions of \$174,307.

For the year ending December 31, 2018, net position decreased by \$328,939 and consisted of an operating loss of \$226,413, net non-operating expenses of \$371,279, and capital contributions of \$268,753.

Capital Asset Changes

At December 31, 2019, the District had invested \$29,459,058 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$746,959 from the previous year. The net decrease consisted of additions to capital assets of \$1,106,428, decreases of \$708,259 and depreciation expense of \$1,145,128. The additions were financed with proceeds from capital contributions and proceeds of the District's operating revenues as well as loan proceeds from the Kentucky Industrial Authority.

At December 31, 2018, the District had invested \$30,206,017 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$60,436 from the previous year. The net decrease consisted of additions to capital assets of \$1,088,850 and depreciation expense of \$1,149,286. The additions were financed with proceeds from capital contributions and proceeds of the District's operating revenues as well as loan proceeds from the Kentucky Industrial Authority.

Debt Administration

At December 31, 2019, the District had \$7,914,500 in revenue bonds outstanding and \$3,962,762 of loans payable outstanding. This represents a decrease of \$228,500 and a decrease of \$50,890 from the prior year balances of \$8,143,000 and \$4,013,652, respectively.

At December 31, 2018, the District had \$8,143,000 in revenue bonds outstanding and \$4,013,652 of loans payable outstanding. This represents a decrease of \$218,500 and a decrease of \$164,388 from the prior year balances of \$8,361,500 and \$4,178,040, respectively.

**OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018**

Other Matters

The District serves approximately 6,000 residential and commercial customers in Breckenridge, Daviess, Grayson, and Ohio Counties, including the cities of Beaver Dam and Fordsville.

In 2006, the District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant was \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the District providing \$2,000,000. The Ohio County Fiscal Court paid \$550,000 towards the amount of the project. The fiscal court agreed to cover \$3,000,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bears a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

During 2015, the remaining balance of the 2003 bond series was paid off with proceeds from the 2015 bond series.

During 2015, the District implemented GASB No. 68, *Accounting and Financial Reporting for Pensions*. This standard requires cost-sharing governments to report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the participants in the plan. Therefore, included in long-term liabilities is a net pension liability of \$2,509,039 for 2019 and \$2,080,814 for 2018.

During 2016, the District placed in service phase 1 of a water system upgrade costing approximately \$1,000,000. A revolving loan was obtained from KIA for the project. The loan will be repaid over a period not to exceed twenty years.

During 2018, the District retrospectively implemented GASB No. 75, No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB")*. This standard requires cost-sharing governments to report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the participants in the plan. Therefore, included in long-term liabilities is a net OPEB liability of \$599,869 for 2019 and \$606,593 for 2018.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact the District at 124 East Washington Street, Hartford, KY 42347.

BASIC FINANCIAL STATEMENTS

**OHIO COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2019 and 2018**

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 416,049	\$ 484,451
Accounts receivable - customers	314,997	300,311
Accounts receivable - other	6,257	15,441
Prepaid expenses	82,381	18,614
Unbilled revenue receivable	225,471	274,715
Interest receivable	<u>5,699</u>	<u>6,469</u>
Total Current Assets	1,050,854	1,100,001
Restricted Assets		
Cash and cash equivalents	1,682,165	1,329,924
Investments	<u>1,258,634</u>	<u>2,093,250</u>
Total Restricted Assets	2,940,799	3,423,174
Property, plant, equipment, and intangibles, net of accumulated depreciation	<u>29,459,058</u>	<u>30,206,017</u>
Total Assets	33,450,711	34,729,192
Deferred Outflows of Resources		
Deferred outflows - pensions	586,631	576,759
Deferred outflows - OPEB	<u>260,414</u>	<u>190,395</u>
Total Deferred Outflows of Resources	<u>847,045</u>	<u>767,154</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 34,297,756</u>	<u>\$ 35,496,346</u>

OHIO COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION (Continued)
December 31, 2019 and 2018

	2019	2018
Liabilities		
Current Liabilities		
Accounts payable	\$ 145,168	\$ 175,022
Accrued payroll taxes	6,758	5,704
Sales tax payable	764	799
Utility tax payable	8,369	8,253
Accrued salaries	59,986	53,429
Accrued interest	162,030	165,336
Current portion of long-term debt	505,162	487,965
Current portion of compensated absence	13,535	9,241
Accrued retirement	21,115	18,868
Customers' deposits	<u>188,810</u>	<u>178,232</u>
Total Current Liabilities	1,111,697	1,102,849
Long-term Liabilities		
Loan payable to Kentucky Infrastructure Authority F15-069	1,295,625	1,154,239
Loan payable to Kentucky Infrastructure Authority F08-08	2,394,974	2,599,948
Revenue bonds payable series 91-01 & 91-03	7,344,377	7,468,179
Revenue bonds payable series 2015	340,000	450,000
Compensated absences	33,640	30,129
Net pension liability	2,509,039	2,080,814
Net OPEB liability	<u>599,869</u>	<u>606,593</u>
Total Long-term Liabilities	<u>14,517,524</u>	<u>14,389,902</u>
Total Liabilities	15,629,221	15,492,751
Deferred Inflows of Resources		
Deferred inflows - pensions	103,099	163,833
Deferred inflows - OPEB	<u>213,667</u>	<u>115,036</u>
Total Deferred Inflows of Resources	316,766	278,869
Net Position		
Invested in capital assets, net of related debt	17,588,092	18,055,661
Restricted for debt service and construction	326,778	325,640
Restricted for depreciation/replacement	618,028	570,880
Unrestricted	<u>(181,129)</u>	<u>772,545</u>
Total Net Position	<u>18,351,769</u>	<u>19,724,726</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 34,297,756</u>	<u>\$ 35,496,346</u>

OHIO COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Water sales	\$ 3,500,215	\$ 3,540,522
Penalties	73,459	71,306
Miscellaneous service revenue	65,213	44,185
Other revenues	<u>35,068</u>	<u>22,796</u>
Total Operating Revenues	3,673,955	3,678,809
Operating Expenses		
Depreciation	1,143,460	1,147,618
Salaries and wages	933,970	928,397
Contractual services	860,474	413,839
Employee pension and benefits	773,185	640,129
Materials and supplies	405,069	45,636
Utilities	351,339	358,746
Chemicals	89,586	77,554
Insurance	75,760	79,084
Payroll tax expense	73,996	75,951
Miscellaneous	71,800	70,005
Transportation expense	46,229	8,705
Telephone expense	32,446	29,540
Bad debt expense	19,957	18,000
Regulatory commission expense	7,184	7,552
Rental of equipment	3,949	2,906
Rental of building and other real estate	<u>524</u>	<u>1,560</u>
Total Operating Expenses	4,888,928	3,905,222
Operating Loss	(1,214,973)	(226,413)
Non-operating Revenues / (Expenses)		
Interest income	46,971	42,823
Gain / (loss) on sale of equipment	(7,918)	(31,694)
Interest expense	(374,035)	(380,247)
KIA service fees	(6,682)	(6,659)
Non-utility income	12,650	12,000
Non-utility expense	<u>(3,277)</u>	<u>(7,502)</u>
Total Non-operating Revenues / (Expenses)	(332,291)	(371,279)
Loss Before Contributed Capital	(1,547,264)	(597,692)
Contributed Capital		
Capital contributions from customers	34,800	41,430
Capital contributions from other governments	<u>139,507</u>	<u>227,323</u>
Total Contributed Capital	174,307	268,753
Change in Net Position	(1,372,957)	(328,939)
Net Position, Beginning of Year	<u>19,724,726</u>	<u>20,053,665</u>
Net Position, End of Year	\$ 18,351,769	\$ 19,724,726

See accompanying notes.

**OHIO COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018**

	2019	2018
Cash flows from operating activities		
Cash received from customers	\$ 3,717,698	\$ 3,633,483
Cash payment to suppliers	(2,047,176)	(720,875)
Cash payments to employees	<u>(1,384,083)</u>	<u>(1,607,722)</u>
Net cash provided by operating activities	286,439	1,304,886
Cash flows from capital and related financing activities		
Proceeds from notes payable	216,847	87,546
Proceeds from equipment sales	2,817	290,137
Proceeds from capital contributions	174,307	268,753
Principal paid on bonds and notes payable	(497,041)	(470,434)
Interest paid on bonds and notes payable	(377,341)	(383,606)
Purchase of equipment	<u>(408,904)</u>	<u>(1,410,684)</u>
Net cash used by capital and related financing activities	(889,315)	(1,618,288)
Cash flows from investing activities		
Purchase of investments	(31,438)	(31,911)
Proceeds from maturity of certificate of deposit	866,054	-0-
Interest income	47,741	42,733
Other non-utility income / (expense)	<u>4,358</u>	<u>(489)</u>
Net cash provided by investing activities	<u>886,715</u>	<u>10,333</u>
Net increase/(decrease) in cash and cash equivalents	283,839	(303,069)
Cash and cash equivalents, beginning of year	<u>1,814,375</u>	<u>2,117,444</u>
Cash and cash equivalents, end of year	<u>\$ 2,098,214</u>	<u>\$ 1,814,375</u>
Reflected in the Statements of Net Position		
Cash and cash equivalents	\$ 416,049	\$ 484,451
Restricted cash and cash equivalents	<u>1,682,165</u>	<u>1,329,924</u>
Total cash and cash equivalents	<u>\$ 2,098,214</u>	<u>\$ 1,814,375</u>

OHIO COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of operating income to net cash provided by operating activities		
Operating loss	\$ (1,214,973)	\$ (226,413)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	1,143,460	1,147,618
(Increase) decrease in deferred outflows of resources	(79,891)	(13,696)
Increase (decrease) in deferred inflows of resources	37,897	49,144
Change in assets and liabilities		
(Increase) decrease in customers' receivables	(14,686)	(29,780)
(Increase) decrease in other receivables	9,184	(11,299)
(Increase) decrease in prepaid expenses	(63,767)	(2,712)
(Increase) decrease in unbilled revenue receivable	49,244	(4,247)
Increase (decrease) in accounts payable	(29,853)	78,761
Increase (decrease) in accrued taxes and retirement	3,382	(8,992)
Increase (decrease) in accrued salaries	6,557	14,695
Increase (decrease) in compensated absences	7,806	21,391
Increase (decrease) in customer deposits	10,578	21,160
Increase (decrease) in net pension liability	428,225	280,863
Increase (decrease) in net OPEB liability	<u>(6,724)</u>	<u>(11,607)</u>
Net cash provided by operating activities	<u>\$ 286,439</u>	<u>\$ 1,304,886</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The Ohio County Water District (the "District") was organized on April 2, 1962, under KRS Chapter 74 as a special district to provide water services to residential and commercial customers in Breckenridge, Daviess, Grayson, and Ohio Counties, including the cities of Beaver Dam and Fordsville.

The governing board currently consists of seven commissioners, five of whom are appointed by the Ohio County Fiscal Court and two are appointed by the Daviess County Fiscal Court.

Basis of Accounting and Significant Accounting Policies

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements.

The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles. Under this method, revenues are recorded when earned, and expenses are recorded when incurred.

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operations are included on the Statement of Net Position.

Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America 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 of reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables

The District determined that all accounts receivable reported on the statements of net position at December 31, 2019 and 2018 are collectible, and therefore, no allowance for uncollectible accounts is considered necessary.

Unbilled Revenue Receivable

Water sold, but unmetered at the date of the financial statements, is estimated based on subsequent billing and included in current assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments consist of certificates of deposit recorded at cost, which is believed to approximate their fair market value.

Capital Assets

Capital assets are defined as assets with an individual cost of more than \$2,500. Capital assets are reported at cost or the fair market value at the time of contribution to the utility. Major outlays are capitalized as projects are constructed. Interest is capitalized on fixed assets constructed with borrowed funds. The amount of interest to be capitalized is calculated by offsetting interest expense from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Operating supplies are expensed at time of purchase. Depreciation is computed on the straight-line method over the following useful lives:

	Years
Land improvements	10-20
Pumping treatment plant and equipment	5-50
Transmission and distribution system	5-50
Other equipment	5-10

Operating Revenues and Expenses

Operating revenues and expenses are those generated by providing services to customers and include water sales, services revenue, penalties, and other miscellaneous operating revenues. Non-operating revenues are located in the statements of revenues and expenses after operating income (operating revenues less operating expenses). Non-operating income includes interest income and contributed capital.

Net Position

Net position represents the difference between assets and liabilities. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. Unrestricted net position is the component of net position that does not meet definition of restricted or invested in capital assets net of related debt.

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

Subsequent Events

Management has evaluated subsequent events through June 19, 2020, the date the financial statements were available to be issued.

Income Taxes

The District is exempt from federal and state income taxes under Section 501 of the Internal Revenue Code.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets in a future period and will not be recognized as an outflow of resources (expense) until that time.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets in a future period and will not be recognized as an inflow of resource (revenue) until that time.

Compensated Absences

The District permits employees to carry-forward unused vacation time from one calendar year to the next. Upon termination of employment, any unused vacation time is paid to the employee. As of December 31, 2019 and 2018, the liability for accrued compensated absences was \$33,640 and \$30,129, respectively.

Concentration of Credit Risk

The majority of the District's activities are with customers in and around Ohio County, Kentucky. The District extends unsecured credit to the customers within this area.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Under Kentucky Revised Statute 66.480, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, and interest bearing deposits of insured national banks.

The District's deposits include cash in checking and savings accounts. The District's investments are all certificates of deposit. The District's deposits and investments at December 31, 2019 and 2018 were covered by federal depository insurance or by collateral held by the custodial banks.

At December 31, 2019, the book balance of the District's deposits and investments was \$3,356,848, and the bank balance was \$3,358,140. This does not include petty cash of \$524. At December 31, 2018, the book balance of the District's deposits and investments was \$3,907,624 and the bank balance was \$4,124,631. This does not include petty cash of \$226.

NOTE 3. CUSTODIAL CREDIT RISKS

Custodial credit risk is the risk that in an event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2019 and 2018, the District's cash and investments exposed to custodial credit risk were \$3,102,696 and \$3,402,180. However, these balances were secured by collateral held by pledging banks.

NOTE 4. RESTRICTED ASSETS

Construction Fund

The construction fund is restricted to paying the costs associated with the respective project. The construction fund at December 31, consisted of the following:

	2019	2018
Total Cash and Cash Equivalents	\$ <u>6,296</u>	\$ <u>6,296</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 4. RESTRICTED ASSETS (Continued)

Debt Service Fund

The debt service funds are required under current debt instruments. Funds are restricted for paying interest and principal of the respective long-term debt. At year end December 31, 2019 and 2018, the debt service funds were invested in savings accounts with an interest rate of 0.50%. The debt service fund at December 31, consisted of the following:

	2019	2018
Cash and Cash Equivalents		
Debt Service Fund Revenue Bond 2003	\$ 39,797	\$ 59,505
Debt Service Fund Rural Development Loan	364,203	360,686
Debt Service Fund KIA	82,816	82,382
Debt Service Fund KIA 2	13,503	12,081
Debt Service Water & Sewer Refunds Account	5,444	5,444
Total Cash and Cash Equivalents	<u>\$ 505,763</u>	<u>\$ 520,098</u>

Depreciation Fund

The depreciation fund was created and continued under previous revenue bond ordinances. Funds are restricted for paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements and the cost of constructing additions and improvements to the system. The fund shall also be available for transfer to the debt service fund in order to avoid default in connection with any outstanding debt payable or to purchase outstanding debt in advance of maturity.

The depreciation fund at December 31, consisted of the following:

	2019	2018
Cash and Cash Equivalents	\$ 658,428	\$ 362,936
Investments (Certificates of Deposit)	<u>1,155,946</u>	<u>1,992,085</u>
Total	<u>\$ 1,814,374</u>	<u>\$ 2,355,021</u>

Debt Service Reserve Fund

The debt service reserve fund revenue bonds series 2003 was established by a resolution adopted by the Commission of the District dated October 28, 2003. The amounts on deposit in the reserve fund shall be withdrawn and used to prevent a default in making payments of principal and interest on the bonds if the amount in the debt service fund is not sufficient to make such payments. In the event of any withdrawal, the District shall restore such deficiencies monthly into the reserve fund 1/36 of the amount required to be accumulated in the reserve funds until the total required debt service reserve shall have been restored.

The debt service reserve fund at December 31, consists of the following:

	2019	2018
Total Investments (Certificates of Deposit)	<u>\$ 102,688</u>	<u>\$ 101,165</u>

Replacement Reserve Fund

Required by new funding sources, the replacement reserve fund at December 31, consisted of the following:

	2019	2018
Total Cash and Cash Equivalents	<u>\$ 511,678</u>	<u>\$ 440,594</u>

OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2019 is as follows:

	Balance 01-01-19	Increases	Decreases	Balance 12-31-19
Capital assets, not being depreciated:				
Land and land rights	\$ 510,420	\$ 0	\$ 0	\$ 510,420
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	8,555,329	0	0	8,555,329
Pumping and treatment plant and equipment	7,657,788	27,166	0	7,684,954
Transmission and distribution system	26,320,608	697,524	(107,350)	26,910,782
Other equipment	<u>833,291</u>	<u>24,275</u>	<u>0</u>	<u>857,566</u>
Total capital assets being depreciated	<u>43,376,261</u>	<u>748,965</u>	<u>(107,350)</u>	<u>44,017,876</u>
Total capital assets	43,886,681	748,965	(107,350)	44,528,296
Less: accumulated depreciation				
Organization expense	(8,245)	0	0	(8,245)
Cost of water contracts	(1,000)	0	0	(1,000)
Land improvements	(1,801,422)	(237,189)	0	(2,038,611)
Pumping and treatment plant and equipment	(2,520,878)	(284,207)	0	(2,805,085)
Transmission and distribution system	(9,550,424)	(550,660)	96,615	(10,004,469)
Other equipment	<u>(316,035)</u>	<u>(73,072)</u>	<u>0</u>	<u>(389,107)</u>
Total accumulated depreciation	<u>(14,198,004)</u>	<u>(1,145,128)</u>	<u>96,615</u>	<u>(15,246,517)</u>
Construction in process	<u>517,340</u>	<u>357,463</u>	<u>(697,524)</u>	<u>177,279</u>
Net capital assets	<u>\$30,206,017</u>	<u>\$ (38,700)</u>	<u>\$ (708,259)</u>	<u>\$ 29,459,058</u>

Construction in process at December 31, 2019 was as follows:

Materials and supplies	\$ 177,279
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Depreciation expense of \$1,145,128 is reported in the statement of revenue and expenses in two separate amounts as depreciation expense in operating expenses of \$1,143,460 and \$1,668 as non-utility expense included in the non-operating revenues / expenses section.

OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 5. CHANGES IN CAPITAL ASSETS (Continued)

A summary of changes in capital assets for 2018 is as follows:

	Balance 01-01-18	Increases	Decreases	Balance 12-31-18
Capital assets, not being depreciated:				
Land and land rights	\$ 510,420	\$ 0	\$ 0	\$ 510,420
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	8,588,202	11,050	(43,923)	8,555,329
Pumping and treatment plant and equipment	7,567,411	110,160	(19,783)	7,657,788
Transmission and distribution system	26,373,372	639,772	(692,536)	26,320,608
Other equipment	<u>1,238,798</u>	<u>121,867</u>	<u>(527,374)</u>	<u>833,291</u>
Total capital assets being depreciated	<u>43,777,028</u>	<u>882,849</u>	<u>(1,283,616)</u>	<u>43,376,261</u>
Total capital assets	44,287,448	882,849	(1,283,616)	43,886,681
Less: accumulated depreciation				
Organization expense	(8,245)	0	0	(8,245)
Cost of water contracts	(1,000)	0	0	(1,000)
Land improvements	(1,608,044)	(237,301)	43,923	(1,801,422)
Pumping and treatment plant and equipment	(2,256,997)	(283,664)	19,783	(2,520,878)
Transmission and distribution system	(9,664,828)	(546,318)	660,722	(9,550,424)
Other equipment	<u>(761,406)</u>	<u>(82,003)</u>	<u>527,374</u>	<u>(316,035)</u>
Total accumulated depreciation	<u>(14,300,520)</u>	<u>(1,149,286)</u>	<u>1,251,802</u>	<u>(14,198,004)</u>
Construction in process	<u>279,524</u>	<u>527,835</u>	<u>(290,019)</u>	<u>517,340</u>
Net capital assets	<u>\$30,266,452</u>	<u>\$ 261,398</u>	<u>\$ (321,833)</u>	<u>\$ 30,206,017</u>

Construction in process at December 31, 2018 was as follows:

Materials and supplies	\$ 274,723
District projects	<u>242,617</u>
	<u>\$ 517,340</u>

Depreciation expense of \$1,149,286 is reported in the statement of revenue and expenses in two separate amounts as depreciation expense in operating expenses of \$1,147,618 and \$1,668 as non-utility expense included in the non-operating revenues / expenses section.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 6. LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2019 were as follows:

	Balance 01-01-2019	Increases	Decreases	Balance 12-31-2019	Current Portion
Loan Payable KIA F08-08 (a)	\$ 2,802,888	\$ -0-	\$ (202,940)	\$ 2,599,948	\$ 204,974
Revenue Bonds Series 91-01 (b)	6,473,000	-0-	(101,000)	6,372,000	105,000
Revenue Bonds Series 91-03 (c)	1,110,000	-0-	(17,500)	1,092,500	18,000
Revenue Bonds Series 2015 (d)	560,000	-0-	(110,000)	450,000	110,000
Loan Payable KIA F15-069 (e)	<u>1,210,764</u>	<u>216,847</u>	<u>(64,798)</u>	<u>1,362,813</u>	<u>67,188</u>
Total	<u>\$ 12,156,652</u>	<u>\$ 216,847</u>	<u>\$ (496,238)</u>	<u>\$ 11,877,261</u>	<u>\$ 505,162</u>

The long-term debt at December 31, 2019, consisted of the following:

(a) Loan Payable Kentucky Infrastructure Authority (KIA) F08-08:

In 2011, the District began drawing loan proceeds from KIA for the construction of the new water treatment plant. The amount, not to exceed \$5,000,000, was completed for \$3,742,957. Repayment of the loan commenced after the project was completed and requires semi-annual payments on the dates established by the schedule of payments. The loan bears an interest rate of 1% and an administrative fee of 0.25% over a term of 20 years.

(b) Revenue Bonds Series 91-01 and 91-03:

The District issued \$8,200,000 of Water works Revenue Bonds to provide construction funds for the new water treatment plant. The total amount of bonds issued are made up of two separate series of bonds, with \$7,000,000 from Series A and \$1,200,000 from Series B. Payments are due January 1st of each year for a term of 40 years. Both bonds have an interest rate of 4.125%. The bonds are fully registered and insured as to the principal and interest.

(c) Revenue Bonds Series 2015:

The District issued \$960,000 of Water works Revenue Bonds Series 2015 to provide for the refunding of the outstanding Series 2003 bonds. The bonds are fully registered and insured as to principal and interest. Interest is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2015. Principal is payable annually on August 1. The bonds are not subject to optional redemption prior to their stated maturities.

(d) Loan Payable Kentucky Infrastructure Authority (KIA) F15-069:

In 2015, the District was approved for a revolving loan not to exceed \$1,630,000 to replace approximately 17,500 linear feet of eight and ten inch lines with a sixteen inch line. The loan is to be repaid commencing one year after completion of the project over a period not to exceed twenty years. It is anticipated that any portion of the loan not currently used may be drawn down or transferred to another project. Principal and interest are payable semi-annually.

OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 6. LONG-TERM DEBT (Continued)

A schedule of the principal due on loans and bonds at December 31, 2019 is as follows:

Year	Revenue Bonds					Total
	KIA Loan F08-08	KIA Loan F15-069	Series 2015	Series 91-01	Series 91-03	
2020	\$ 204,974	\$ 67,188	\$ 110,000	\$ 105,000	\$ 18,000	\$ 505,162
2021	207,029	68,370	110,000	109,500	19,000	513,899
2022	209,105	69,571	115,000	114,000	19,500	527,176
2023	211,201	70,794	115,000	118,500	20,500	535,995
2024	213,318	72,038	0	123,500	21,000	429,856
2025-2029	1,099,101	379,635	0	699,000	120,000	2,297,736
2030-2034	455,220	414,192	0	855,500	147,000	1,871,912
2035-2039	0	221,026	0	1,047,000	180,000	1,448,026
2040-2044	0	0	0	1,281,500	219,500	1,501,000
2045-2029	0	0	0	1,568,500	268,500	1,837,000
2050	<u>0</u>	<u>0</u>	<u>0</u>	<u>350,000</u>	<u>59,500</u>	<u>409,500</u>
Total	2,599,948	1,362,814	450,000	6,372,000	1,092,500	11,877,262
Current Portion	<u>(204,974)</u>	<u>(67,188)</u>	<u>(110,000)</u>	<u>(105,000)</u>	<u>(18,000)</u>	<u>(505,162)</u>
Long-term Portion	<u>\$ 2,394,974</u>	<u>\$ 1,295,626</u>	<u>\$ 340,000</u>	<u>\$ 6,267,000</u>	<u>\$ 1,074,500</u>	<u>\$ 11,372,100</u>

All long-term debt (loans and bonds) are secured solely by a pledge of and payable from the gross revenues derived from the operations of the District. Each obligation ranks on a parity basis as to security and source of payment with the other obligations.

The annual requirements to amortize long-term debt outstanding as of December 31, 2019, including interest payments, are as follows:

Year	Revenue Bonds					Total
	KIA Loan F08-08	KIA Loan F15-069	Series 2015	Series 91-01	Series 91-03	
2020	\$ 236,835	\$ 93,966	\$ 119,575	\$ 365,679	\$ 62,695	\$ 878,750
2021	236,321	93,805	117,375	365,755	62,932	876,188
2022	235,802	93,641	120,175	365,645	62,638	877,901
2023	235,278	93,474	117,588	365,350	62,813	874,503
2024	234,749	93,303	0	365,359	62,457	755,868
2025-2029	1,165,617	463,858	0	1,825,849	313,153	3,768,477
2030-2034	462,351	459,131	0	1,822,513	312,724	3,056,719
2035-2039	0	227,661	0	1,818,418	312,105	2,358,184
2040-2044	0	0	0	1,813,637	310,509	2,124,146
2045-2029	0	0	0	1,807,636	309,346	2,116,982
2050	<u>0</u>	<u>0</u>	<u>0</u>	<u>357,219</u>	<u>60,727</u>	<u>417,946</u>
Total	<u>\$ 2,806,953</u>	<u>\$ 1,618,839</u>	<u>\$ 474,713</u>	<u>\$ 11,273,060</u>	<u>\$ 1,932,099</u>	<u>\$ 18,105,664</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN

The District is a participating employer of the County Employees' Retirement System ("CERS"). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website at <http://kyret.ky.gov/>.

Plan Description

The District is a participating employer of the County Employees' Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer defined benefit pension plan that covers substantially all regular full-time employees (members) employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the plan. Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems ("KRS") administers the CERS. The plan issues publicly available financial statements on the KRS website at <http://kyret.ky.gov/>.

The Plan is divided into both a pension plan and a health insurance fund plan (OPEB), and each plan is further subdivided based on non-hazardous and hazardous duty covered employee classifications. The District has only non-hazardous employees.

Benefits Provided

CERS provides for retirement, disability, and death benefits to plan members. Members are vested in the plan after five years' service credit. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments ("COLA") are provided at the discretion of state legislature. Senate Bill 2 of 2013 eliminated all future COLAs unless state legislature so authorizes on a biennial basis and either (i) the system is over 100% funded or (ii) the state legislature appropriates sufficient funds to pay the increased liability for the COLA. For retirement purposes, employees are grouped into three tiers based on hire date. Tier 1 includes plan members whose participation began before September 1, 2008, Tier 2 includes plan members whose participation began on or after September 1, 2008 but before January 1, 2014, and Tier 3 includes plan members whose participation began on or after January 1, 2014.

Tier 1 non-hazardous members are eligible to retire with an unreduced retirement benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a benefit formula calculation based on final compensation multiplied by a benefit factor multiplied by years of service. Tier 1 final compensation is the average of the five highest years' earnings, the benefit factor is 2.20% for members participating prior to August 1, 2004 and 2.00% for members participating on or after August 1, 2004 and before September 1, 2008. Reduced benefits for early retirement are available at age 55 with five years' service credit or at age 57 based on the Rule of 87 – sum of service years plus age equal to 87. Final compensation for Tier 2 benefit formula calculation is the average of the last complete five years' earnings, and the benefit factor is an increasing percentage based on service at retirement plus 2.00% for each year of service over 30. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 non-hazardous members are eligible to retire with an unreduced retirement benefit at age 65 with five years' service credit or at age 57 based on the Rule of 87. Tier 3 members are not eligible for reduced retirement benefits. Tier 3 is a hybrid cash balance plan. When a member is eligible to retire, the benefit is calculated based on the member's accumulated account balance. A member earns service credit for each month contributing to the plan. Upon retirement, the hypothetical account, which includes member contributions, employer contributions, and interest credits, can be withdrawn in a lump sum or annuitized into a single life annuity option.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN *(Continued)*

Death benefits are provided for both death after retirement and death prior to retirement. Members receiving a monthly benefit based on at least four years of creditable service are eligible for a \$5,000 death benefit. Beneficiaries of deceased members are eligible for a monthly benefit if the member was (i) eligible for retirement at the time of death or, (ii) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or, (iii) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

Members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004 but before January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 20% of the final rate of pay or the amount calculated under the benefit formula based upon actual service. Members participating on or after January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit.

The hypothetical account, which includes member contributions, employer contributions, and interest credits, can be withdrawn as a lump sum or an annuity equal to the larger of 20% of the member's monthly final rate of pay or the annuitized hypothetical account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

CERS Contributions

Employee contribution rates are set by statutes governing the KRS and may only be changed by the Kentucky General Assembly. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statutes Section 61.565(3), normal contribution and actuarially accrued liability contribution rates shall be determined by the Board of Trustees on the basis of annual actuarial valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of July of the second year of a biennium if it determines on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. The normal contribution rate (the percentage computed of employee creditable compensation) shall be determined by the entry age normal cost funding method. The actuarially accrued liability shall be determined by actuarial method consistent with the methods prescribed for determining the normal contribution rate. The actuarially accrued liability contribution shall be computed by amortizing the total unfunded actuarially accrued liability over a period of 30 years using the level-percentage-of-payroll amortization method. Administrative costs of CERS are financed through employer contributions and investment earnings.

Plan members with non-hazardous duty positions participating in CERS on or before August 31, 2008 (Tier 1) were required to contribute 5% of their annual creditable compensation. For plan members with non-hazardous duty positions who began participating on or after September 1, 2008 but before January 1, 2014 (Tier 2), contribution rates were 6% of annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (Kentucky Administrative Regulation 105 KAR 1:420E). Plan members with non-hazardous duty positions participating in CERS on or after January 1, 2014 (Tier 3) were required to contribute to the hybrid cash balance plan. Plan members and employers contribute a set percentage of creditable compensation into the member's account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund, which is not credited to the members' account and is not refundable. Employers contribute 4% of non-hazardous creditable compensation into member's hypothetical account.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN (Continued)

For the year ended December 31, 2019, the District contributed 21.48% (16.22% for the pension fund and 5.26% for the OPEB) of each employee's wages from January to June 2019 and 24.06% (19.30% for the pension fund and 4.76% for the OPEB fund) of each employee's wages from July to December 2019. The District made all required contributions for the year ended December 31, 2019, which totaled \$162,034 for the pension fund.

Pension Liabilities, Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources

At December 31, 2019, the District reported a liability of \$2,509,039 as 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 and rolled-forward using generally accepted actuarial principles. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. At December 31, 2019, the District's proportionate share was 0.035675% while at December 31, 2018, the proportionate share was 0.034166%.

For the year ended December 31, 2019, the District recognized pension expense of \$357,619 in addition to its pension fund contributions of \$162,034. 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	\$ 64,063	\$ 10,601
Changes of assumptions	253,943	-0-
Difference between projected and actual earnings on plan investments	48,164	88,610
Changes in proportion and differences between employer contributions and proportionate share of contributions	131,999	3,889
Company contributions subsequent to the measurement date	<u>88,462</u>	<u>-0-</u>
	<u>\$ 586,631</u>	<u>\$ 103,100</u>

The \$88,462 of deferred outflows of resources 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2020	\$ 245,414
2021	111,029
2022	35,752
2023	<u>2,874</u>
	<u>\$ 395,069</u>

In the table above, positive amounts will increase pension expense, and negative amounts will decrease pension expense.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN *(Continued)*

Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the measurement period ending June 30, 2019, using generally accepted actuarial principles. The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2018.

Inflation	2.30%
Salary increases	3.30%, average, including inflation
Discount rate	6.25%
Investment rate of return	6.25%, net of pension plan 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 Disabled Mortality Table projected with Scale BB to 2013 (1-year set-back 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.

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

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
U.S. equity	18.75%	4.30%
International 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 equivalent	1.00%	2.00%
Real estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real return	<u>15.00%</u>	4.10%
	100.00%	

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 7. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN *(Continued)*

Discount Rate

The discount rate used to measure the total pension liability was 6.25% for the year ended June 30, 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments 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%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	Discount Rate	Proportionate Share of Net Pension Liability
1% decrease	5.25%	\$ 3,138,096
Current discount rate	6.25%	\$ 2,509,039
1% increase	7.25%	\$ 1,984,726

NOTE 8. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

Employees of the District are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing, multiple-employer defined benefit OPEB plan. The Insurance Fund is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS), pursuant to Kentucky Revised Statute Section 61.645 and covers substantially all regular full-time Service employees (members). All of the District's employees are employed in non-hazardous duty positions. KRS issues publicly available financial statements on the KRS website at <http://kyret.ky.gov/>.

Benefits Provided

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for year of earned service without regard to a maximum dollar amount.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 8. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. For the year ended December 31, 2019, the District contributed 5.26% of each employee's wages from January to June 2019 and 4.76% of each employee's wages from July to December 2019. The District made all required contributions for the year ended December 31, 2019, which totaled \$45,676.

Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation, which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

The District's 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 June 30, 2018. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2019. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2019, the District's proportion was 0.035665%.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.05%, average
Investment rate of return	6.25%, net of pension plan expense, including inflation
Healthcare cost trend rates (Pre-65)	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to ultimate trend rate of 4.05% over a period of 13 years.
Healthcare cost trend rates (Post-65)	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to ultimate trend rate of 4.05% over a period of 11 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females). The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period of July 1, 2013 through June 30, 2018.

The long-term expected rate of return on plan assets is reviewed as part to the regular experience study prepared every five years for KRS. The most recent analysis was performed for the period covering fiscal years 2013 through 2018. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce a long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10 year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer time frame. The assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 8. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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
U.S. equity	18.75%	4.30%
International 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 equivalent	1.00%	2.00%
Real estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real return	<u>15.00%</u>	4.10%
	100.00%	

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

The discount rate used to measure the total OPEB liability was 5.68%. The following presents the District's proportionate share of the collective net OPEB liability calculated using the discount rate of 5.68%, 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%) or 1-percentage-point higher (6.68%) than the current rate:

	Discount Rate	Proportionate Share of Net OPEB Liability
1% decrease	4.68%	\$ 803,578
Current discount rate	5.68%	599,869
1% increase	6.68%	432,027

Sensitivity of the 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 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 a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate:

	Proportionate Share of Net OPEB Liability
1% decrease	\$ 446,126
Current discount rate	599,869
1% increase	786,301

OHIO COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 8. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Expense, Deferred Outflows of Resources - OPEB, and Deferred Inflows of Resources - OPEB

For the year ended December 31, 2019, the District recognized OPEB expense of \$21,888 in addition to its Insurance Fund contributions of \$45,676. At December 31, 2019, 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
Difference between expected and actual experience	\$ -0-	\$ 180,994
Changes of assumptions	177,507	1,187
Difference between projected and actual earnings on plan investments	3,951	30,595
Changes in proportion and differences between employer contributions and proportionate share of contributions	57,138	891
Company contributions subsequent to the measurement date	<u>21,818</u>	<u>-0-</u>
	<u>\$ 260,414</u>	<u>\$ 213,667</u>

The \$21,818 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending December 31,	
2020	\$ 7,694
2021	7,694
2022	16,166
2023	(90)
2024	(5,484)
Thereafter	<u>(1,051)</u>
	<u>\$ 24,929</u>

In the table above, positive amounts will increase OPEB expense, and negative amounts will decrease OPEB expense.

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

OHIO COUNTY WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	.035675%	.034166%	.030751%	.031447%	.027397%					
Proportionate share of the net pension liability (asset)	\$ 2,509,039	\$ 2,080,814	\$ 1,799,951	\$ 1,548,342	\$ 1,177,927					
Covered employee payroll In year of measurement	\$ 899,866	\$ 849,237	\$ 815,778	\$ 810,128	\$ 746,634					
Share of the net pension liability (asset) as a % of its covered payroll	278.82%	245.02%	220.64%	191.12%	157.76%					
Plan fiduciary net position as a % of total pension liability	50.45%	53.54%	53.30%	55.50%	59.97%					

SCHEDULE OF PENSION CONTRIBUTIONS

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 162,034	\$ 136,220	\$ 115,961	\$ 110,171						
Actual contribution	162,034	136,220	115,961	110,171						
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-						
Covered employee payroll	\$ 911,939	\$ 887,015	\$ 815,778	\$ 822,561						
Contributions as a % of covered employee payroll	17.77%	15.36%	14.21%	13.39%						

Notes:

- These schedules are intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
- The amounts presented for each fiscal year were determined (measured) as of June 30 of the fiscal year presented.

OHIO COUNTY WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net OPEB liability	.035665%	.034165%								
Proportionate share of the net OPEB liability (asset)	\$ 599,869	\$ 606,593								
Covered employee payroll In year of measurement	\$ 899,866	\$ 849,237								
Share of the net OPEB liability (asset) as a % of its covered payroll	66.66%	71.43%								
Plan fiduciary net position as a % of total OPEB liability	60.44%	57.62%								

SCHEDULE OF OPEB CONTRIBUTIONS

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 45,676	\$ 44,194								
Actual contribution	<u>45,676</u>	<u>44,194</u>								
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>								
Covered employee payroll	\$ 911,939	\$ 887,015								
Contributions as a % of covered employee payroll	5.01%	4.98%								

Notes:

- These schedules are intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
- The amounts presented for each fiscal year were determined (measured) as of June 30 of the fiscal year presented.

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
Ohio County Water District

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 Ohio County Water District as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the Ohio County Water District's basic financial statements, and have issued our report thereon dated June 19, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ohio County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ohio County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ohio 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 District'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. 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 the Ohio County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hensley & Throneberry, CPAs

June 19, 2020