

OLDHAM COUNTY WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2020 AND 2019

OLDHAM COUNTY WATER DISTRICT

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YEARS ENDED DECEMBER 31, 2020 AND 2019

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Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Oldham County Water District
Buckner, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Oldham County Water 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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oldham County Water District, as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2020, the District adopted Governmental Accounting Standards Board Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 8, schedule of proportionate share of the net pension and OPEB liabilities on pages 32 and 33 and schedule of contributions on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2021, on our consideration of Oldham County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Oldham County Water District's internal control over financial reporting and compliance.



Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
March 19, 2021

REQUIRED SUPPLEMENTARY INFORMATION

**OLDHAM COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2020**

The discussion and analysis of Oldham County Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2020. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of 2020 by \$36 million (net position). Of this amount, \$5.9 million (unrestricted net position) may be used to meet the District's ongoing obligations to customers and creditors. The District's total net position increased by \$2.0 million in 2020. This represents a 5.8% change from the 2019 balance.
- The ending cash and investment balance for the District was \$12.0 million. The balance at December 31, 2019, was \$10.8 million. This reflects an increase in cash and investments during the year of \$1.2 million.
- The District invested approximately \$1.1 million in capital assets during the year.
- The District was impacted by the Coronavirus (COVID-19) beginning March 16, 2020 through the end of the year. Kentucky's Public Service Commission ordered the District to suspend disconnects for non-payment for the majority of the year along with waive late fees and provide payment plans for customers. The District voluntarily waived third party credit card processing fees for 3.5 months following the outbreak of the virus. The District examined internal operations such as technology controls, security and employee operations. The District had no significant negative effect on the overall financial position or results of operations.

USING THIS ANNUAL REPORT

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

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

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the ***statement of revenues, expenses, and changes in fund net position*** presents the results of the District's activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to

improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

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

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

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$36.1 million and \$34.1 million as of December 31, 2020 and 2019.

The largest portion of the District's net position (60%) reflects its investment in infrastructure and capital assets (e.g., land and land rights, plant and equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Position
as of December 31, 2020 and 2019

	2020	2019
Assets		
Current and		
Other Assets	\$ 18,695,755	\$ 16,789,474
Capital Assets	34,109,574	34,044,407
Total Assets	<u>52,805,329</u>	<u>50,833,881</u>
Deferred Outflows of Resources	1,105,131	804,531
Long-term liabilities	16,429,352	16,035,475
Other Liabilities	1,152,964	1,149,036
Total Liabilities	<u>17,582,316</u>	<u>17,184,511</u>
Deferred Inflows of Resources	257,377	344,623
Net Position		
Net investment in capital assets	21,504,972	20,939,387
Restricted	8,668,235	6,374,393
Unrestricted	5,897,560	6,795,498
Total Net Position	<u>\$ 36,070,767</u>	<u>\$ 34,109,278</u>

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), decreased by 13% from \$6.8 million to \$5.9 million at December 31, 2020. Restricted net position increased \$2.3 million (36%). Net investment in capital assets increased by \$566 thousand (2.7%).

(Table 2)
Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING REVENUES:		
Water sales	\$ 4,964,939	\$ 4,905,894
Other operating income	42,365	101,359
Total operating revenues	5,007,304	5,007,253
OPERATING EXPENSES:		
Water supply	230,382	221,803
Water treatment	595,498	643,279
Transmission and distribution	1,031,291	1,184,460
Customer accounts	780,855	768,769
General and administrative	681,944	691,273
Depreciation	1,010,378	978,744
Total operating expenses	4,330,348	4,488,328
OPERATING INCOME	676,956	518,925
NON-OPERATING REVENUES (EXPENSES):		
Investment income	250,888	284,533
Other income	246,338	271,947
Gain on disposal of capital assets	110,046	31,712
Interest expense	(442,859)	(462,668)
Amortization of bond discount and expense	6,918	6,918
TOTAL NON-OPERATING REVENUES (EXPENSES)	171,331	132,442
Capital contributions	1,113,202	962,911
Increase in net position	\$ 1,961,489	\$ 1,614,278
Net position, beginning of year	34,109,278	32,495,000
Net position, end of year	\$ 36,070,767	\$ 34,109,278

Operating revenue remained constant while operating expenses decreased by 3.5% compared to the prior year. Gain on disposal of capital assets increased by 17% and interest expense on long-term debt decreased by 12% compared to the prior year. The District continues to receive capital contributions through the State of Kentucky, the Federal government, customers and individual developers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2020 and 2019, the District had \$34 million invested in a variety of capital assets, as reflected in the following tables:

(Table 3)
Capital Assets (Net of Depreciation)
as of December 31, 2020 and 2019

	2020	2019
Non-Depreciable Assets:		
Land and land rights	\$ 2,844,536	\$ 2,845,138
Construction in progress	48,925	61,360
Depreciable Assets:		
Plant and equipment	31,216,113	31,137,909
Total capital assets, net of depreciation	\$ 34,109,574	\$ 34,044,407

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2020 and 2019

	2020	2019
Beginning balance	\$ 34,044,407	\$ 32,950,570
Additions	1,138,091	2,181,324
Retirements	(62,546)	(108,743)
Depreciation	(1,010,378)	(978,744)
Ending balance	\$ 34,109,574	\$ 34,044,407

Debt

At December 31, 2020 and 2019, the District had \$12.2 million and \$12.3 million, in revenue bonds outstanding and other loans of \$505 thousand and \$823 thousand. A total of \$518 thousand is due within the 2021 calendar year.

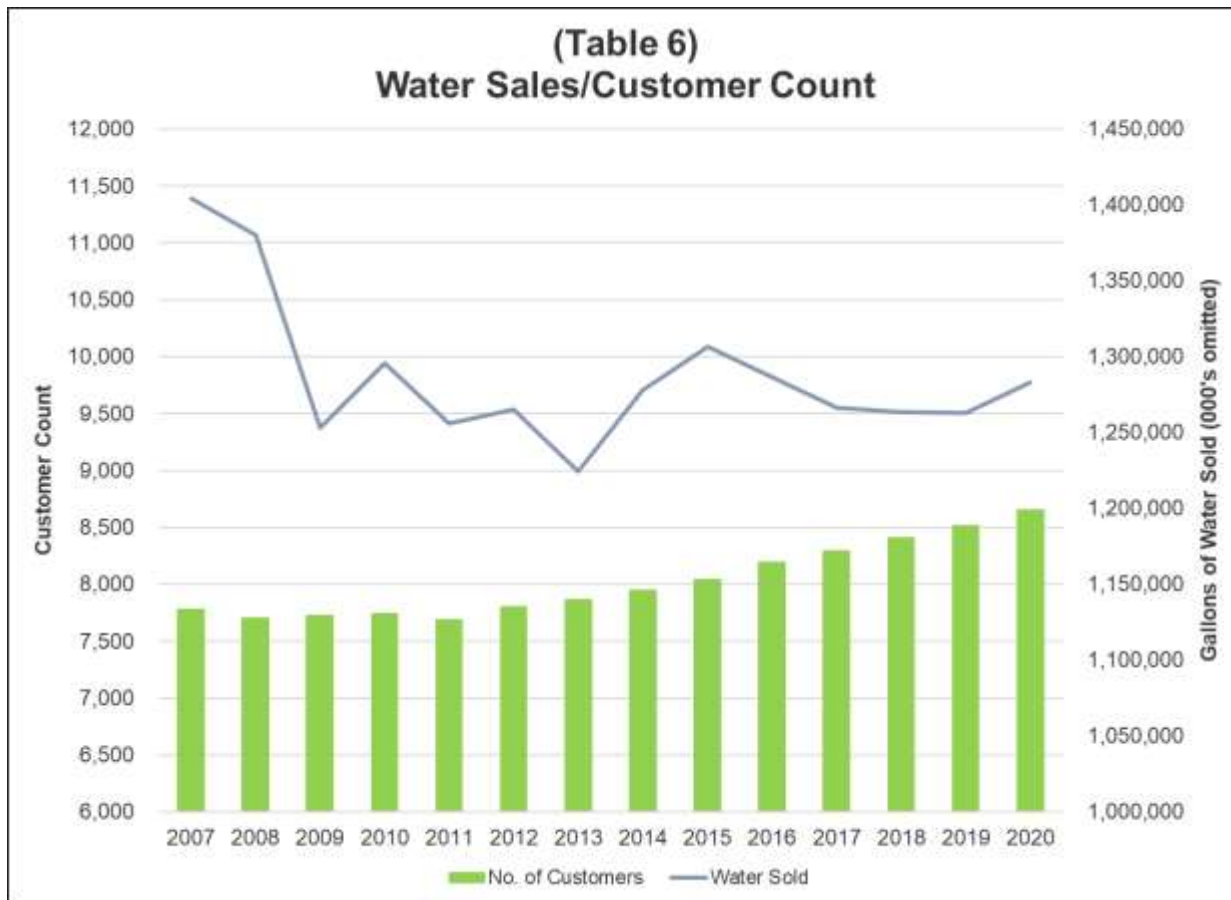
(Table 5)
Outstanding Debt
as of December 31, 2020 and 2019

	2020	2019
Revenue bonds	\$ 12,164,100	\$ 12,340,100
Loans	505,000	822,500
Unamortized discount	(86,796)	(94,740)
Unamortized premium	22,298	37,160
	\$ 12,604,602	\$ 13,105,020

District Challenges for the Future

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

Economic factors and increased water saving fixtures are a contributing factor to the 121 million or 9% decline in gallons of water sold from thirteen years prior (2007), primarily driven by the retail water consumption, while the District's customer count has rose by 869 or 11% during these thirteen years.



As the District serves more customers, infrastructure ages, and water consumption falls, the District will continue to use careful planning and monitoring of finances to provide quality services to its customers. Included in this planning and monitoring is examining the rate charged for water usage to determine when any increase will be necessary to continue providing quality services.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Lacey Cunningham, Finance & Administrative Manager, P.O. Box 51, Buckner, Kentucky 40031, (502) 222-1690.

BASIC FINANCIAL STATEMENTS

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash	\$ 3,778,724	\$ 1,850,982
Accounts receivable, net	574,411	422,574
Prepaid expenses	46,412	40,294
Materials and supplies	456,916	447,574
TOTAL CURRENT ASSETS	4,856,463	2,761,424
NONCURRENT ASSETS:		
Restricted cash	6,621,549	4,330,407
Investments	1,647,931	4,661,522
Restricted investments	2,074,816	2,072,075
Regulatory asset - CERS pension	2,762,976	2,322,058
Regulatory asset - CERS OPEB	732,020	641,988
Non-depreciable capital assets	2,893,461	2,906,498
Depreciable capital assets, net of accumulated depreciation	31,216,113	31,137,909
TOTAL NONCURRENT ASSETS	47,948,866	48,072,457
TOTAL ASSETS	52,805,329	50,833,881
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows of resources - CERS pension	600,674	550,489
Deferred outflows of resources - CERS OPEB	504,457	254,042
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,105,131	804,531
 <u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	83,732	104,682
Construction projects payable	10,363	-
Accrued vacation	73,245	56,623
Tax collections	15,309	13,926
Other collections	155,280	146,716
Accrued payroll and taxes	27,443	79,892
Other accrued expenses	67,725	48,886
Accrued interest	201,867	204,811
Bonds and loans payable	518,000	493,500
TOTAL CURRENT LIABILITIES	1,152,964	1,149,036
NONCURRENT LIABILITIES:		
Net pension liability	3,303,127	2,763,283
Net OPEB liability	1,039,623	660,672
Bonds and loans payable	12,086,602	12,611,520
TOTAL NONCURRENT LIABILITIES	16,429,352	16,035,475
TOTAL LIABILITIES	17,582,316	17,184,511
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows of resources - CERS pension	60,523	109,265
Deferred inflows of resources - CERS OPEB	196,854	235,358
TOTAL DEFERRED INFLOWS OF RESOURCES	257,377	344,623
 <u>NET POSITION</u>		
Net investment in capital assets	21,504,972	20,939,387
Restricted for debt service	3,069,561	2,515,479
Restricted for depreciation	5,598,674	3,858,914
Unrestricted	5,897,560	6,795,498
TOTAL NET POSITION	\$ 36,070,767	\$ 34,109,278

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

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Water sales	\$ 4,964,939	\$ 4,905,894
Other operating income	42,365	101,359
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	5,007,304	5,007,253
OPERATING EXPENSES:		
Water supply	230,382	221,803
Water treatment	595,498	643,279
Transmission and distribution	1,031,291	1,184,460
Customer accounts	780,855	768,769
General and administrative	681,944	691,273
Depreciation	1,010,378	978,744
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TOTAL OPERATING EXPENSES	4,330,348	4,488,328
OPERATING INCOME	676,956	518,925
NON-OPERATING REVENUES (EXPENSES):		
Investment income	250,888	284,533
Other income	246,338	271,947
Gain (loss) on disposal of capital assets	110,046	31,712
Interest expense	(442,859)	(462,668)
Amortization of bond discount and premium	6,918	6,918
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TOTAL NON-OPERATING REVENUES (EXPENSES)	171,331	132,442
CAPITAL CONTRIBUTIONS	1,113,202	962,911
CHANGE IN NET POSITION	1,961,489	1,614,278
NET POSITION, beginning of year	<hr/> 34,109,278	<hr/> 32,495,000
NET POSITION, end of year	<hr/> <u>\$ 36,070,767</u>	<hr/> <u>\$ 34,109,278</u>

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

OLDHAM COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 4,847,609	\$ 5,207,916
Payments to suppliers	(1,260,355)	(1,270,886)
Payments to employees	<u>(2,095,208)</u>	<u>(2,142,933)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,492,046	1,794,097
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(176,000)	(168,000)
Principal payments on notes	(317,500)	(300,000)
Acquisition of capital assets	(171,316)	(1,224,207)
Contributions in aid of construction	179,082	108,750
Interest paid	(399,051)	(418,138)
Sale of capital assets	<u>150,299</u>	<u>37,500</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(734,486)	(1,964,095)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (purchase) of investments	3,010,850	(176,588)
Other income	199,586	224,607
Investment income	<u>250,888</u>	<u>284,533</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,461,324</u>	<u>332,552</u>
NET INCREASE IN CASH	4,218,884	162,554
CASH AND RESTRICTED CASH, beginning of year	<u>6,181,389</u>	<u>6,018,835</u>
CASH AND RESTRICTED CASH, end of year	<u>\$ 10,400,273</u>	<u>\$ 6,181,389</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 676,956	\$ 518,925
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,010,378	978,744
(Increase) decrease in accounts receivable	(151,837)	200,663
(Increase) in prepaids	(6,118)	(908)
(Increase) decrease in materials and supplies	(9,342)	11,250
Increase (decrease) in accounts payable	(20,950)	55,803
Increase in accrued vacation	16,622	2,693
Increase in other liabilities	<u>(23,663)</u>	<u>26,927</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,492,046</u>	<u>\$ 1,794,097</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Oldham County Water District was created by the order of the county Judge/Executive of Oldham County, Kentucky, on April 16, 1979. The order approved the merger of the existing Ohio River – Oldham Water District and the Oldham County Water District No. 3. The waterworks system of the District is owned and operated by the District under the provisions of Chapters 74 and 106 and Sections 96.350 through 96.510, inclusive, of the Kentucky Revised Statutes.

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

A. REPORTING ENTITY

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

B. BASIC FINANCIAL STATEMENTS

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

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred. Because the District's rates are regulated by the Kentucky Public Service Commission the District accounts for the financial effects of regulation in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, Paragraphs 476-500, Regulated Operations. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

D. FINANCIAL STATEMENT AMOUNTS

1. Cash and cash equivalents – The District has defined cash and cash equivalents to include cash on hand and demand deposits. The District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
2. Restricted Assets – Restricted assets consist of deposit accounts.
3. Materials and supplies – Materials and supplies is composed of items used in the capital construction process.
4. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2020 and 2019, accounts receivable was stated net of an allowance for uncollectible accounts of \$33,517 and \$31,094. Bad debt expense for 2020 was \$5,794 and 2019 was \$-0-. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
5. Capital Assets – Capital assets and construction in progress with a life extending beyond one operating cycle are recorded at historical cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. Assets are depreciated on the straight-line method. Depreciation on plant and equipment is calculated using the following estimated useful lives ranging from 10 to 62.5 years.
6. Compensated absences – The District accrues unpaid vacation when earned by the employee.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENT 4DECEMBER 31, 2020 AND 2019

7. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenue and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.
8. Net Position – Net position is divided into three components:
 - a. Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
 - b. Restricted net position – consist of net position that is restricted by the District's creditors (for example, through debt covenants), by grantors (both federal, state and local) and by other contributors.
 - c. Unrestricted – all other net position is reported in this category.
9. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.
10. Amortization – Bond discounts and premiums are being amortized using the interest method over the life of each respective bond issue.
11. Capital Contributions – Contributions are recognized in the Statement of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
12. Long-term Obligations – Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts are deferred and amortized over the life of the bonds. Issuance costs are expensed as incurred.
13. Use of Estimates – Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.
14. Pensions and OPEB – For purposes of measuring the net pension liability, net OPEB liability, deferred outflows/inflows of resources, 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 except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019

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

15. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In May 2020, the GASB issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement was effective upon issuance. For the postponement dates, see individual standard descriptions below.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement was effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019, but was delayed by eighteen months with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. This statement is effective for periods beginning after December 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2020, the GASB Issued Statement 92, *Omnibus 2020*. This statement is effective for periods beginning after June 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019

In March 2020, the GASB issued Statement 93, *Replacement of Interbank Offered Rates*. This statement is effective, except for paragraphs 11b, 13, and 14 for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021. These dates were delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The requirements in (1) paragraph 4 of the Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of the Statement are effective immediately. The requirements in paragraphs 6–9 of the Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of the Statement are effective for reporting periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2020 and 2019, \$13,905,673 and \$12,843,955 of the District's bank balance of \$14,155,673 and \$13,093,955 was exposed to custodial credit risk. For 2020 and 2019, of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution. The District's policy is to have all deposited fully secured by FDIC or pledged securities.

NOTE 3 - RESTRICTED CASH

The District has restricted cash for various purposes including debt service and future construction. The following schedule represents restricted cash at December 31, 2020 and 2019:

Restricted For	December 31, 2020	December 31, 2019
Debt service	\$ 3,069,561	\$ 2,515,479
Depreciation fund	5,598,674	3,858,914
	\$ 8,668,235	\$ 6,374,393

For the years ended December 31, 2020 and 2019, the restricted cash includes \$2,074,816 and \$2,072,075 which is reported in the Statement of Net Position as restricted investments due to presentation differences between GASBS 3 and 9.

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 follows.

	Balance at December 31, 2019	Additions	Retirements	Balance at December 31, 2020
Non-Depreciable Assets:				
Land and land rights	\$ 2,845,138	\$ -	\$ (602)	\$ 2,844,536
Construction in progress	61,360	9,858	(22,293)	48,925
Total Capital Assets Not Being Depreciated	2,906,498	9,858	(22,895)	2,893,461
Capital Assets Being Depreciated:				
Plant and equipment	49,035,267	1,128,233	(293,028)	49,870,472
Total Capital Assets Being Depreciated at historical cost	49,035,267	1,128,233	(293,028)	49,870,472
Less: accumulated depreciation	(17,897,358)	(1,010,378)	253,377	(18,654,359)
Total Other Capital Assets, net	31,137,909	117,855	(39,651)	31,216,113
Net capital assets	<u>\$ 34,044,407</u>	<u>\$ 127,713</u>	<u>\$ (62,546)</u>	<u>\$ 34,109,574</u>

Capital asset activity for the year ended December 31, 2019 follows.

	Balance at December 31, 2018	Additions	Retirements	Balance at December 31, 2019
Non-Depreciable Assets:				
Land and land rights	\$ 2,617,138	\$ 230,000	\$ (2,000)	\$ 2,845,138
Construction in progress	46,044	102,271	(86,955)	61,360
Total Capital Assets Not Being Depreciated	2,663,182	332,271	(88,955)	2,906,498
Capital Assets Being Depreciated:				
Plant and equipment	47,213,199	1,849,053	(26,985)	49,035,267
Total Capital Assets Being Depreciated at historical cost	47,213,199	1,849,053	(26,985)	49,035,267
Less: accumulated depreciation	(16,925,811)	(978,744)	7,197	(17,897,358)
Total Other Capital Assets, net	30,287,388	870,309	(19,788)	31,137,909
Net capital assets	<u>\$ 32,950,570</u>	<u>\$ 1,202,580</u>	<u>\$ (108,743)</u>	<u>\$ 34,044,407</u>

During the years ended December 31, 2020 and 2019, the District capitalized no interest and expensed \$442,859 and \$462,668 of interest costs.

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 5 – LONG-TERM OBLIGATIONS

The construction costs of the District's water facilities have been financed by issuance of revenue bonds authorized under Kentucky Revised Statutes and loans through the Kentucky Infrastructure Authority. All assets of the District are pledged as collateral for these bonds and loans. Information relating to the outstanding bond issues is summarized below:

Long-term debt

<u>Bond Issue</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Amount Due 12/31/2020</u>	<u>Amount Due 12/31/2019</u>
2010 Series A	3.75%	\$4,243,100	\$ 3,777,100	\$ 3,839,100
2010 Series B	3.13%	9,000,000	8,387,000	8,501,000
			12,164,100	12,340,100

<u>Loan Issue</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Amount Due 12/31/2020</u>	<u>Amount Due 12/31/2019</u>
KIA C01-02	2.50%	4,355,000	505,000	822,500
			505,000	822,500
Total Long-term debt			<u>\$ 12,669,100</u>	<u>\$ 13,162,600</u>

Long-term liability activity for the year ended December 31, 2020, was as follows:

	<u>Balance at December 31, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2020</u>	<u>Amount Due Within One Year</u>
Long-term debt payable:					
Revenue bonds	\$ 12,340,100	\$ -	\$(176,000)	\$ 12,164,100	\$ 183,000
Loans	822,500	-	(317,500)	505,000	335,000
Unamortized discount	(94,740)	-	7,944	(86,796)	-
Unamortized premium	37,160	-	(14,862)	22,298	-
Total long-term debt payable	<u>\$ 13,105,020</u>	<u>\$ -</u>	<u>\$(500,418)</u>	<u>\$ 12,604,602</u>	<u>\$ 518,000</u>

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019

Long-term liability activity for the year ended December 31, 2019, was as follows:

	Balance at December 31, 2018	Additions	Reductions	Balance at December 31, 2019	Amount Due Within One Year
Long-term debt payable:					
Revenue bonds	\$ 12,508,100	\$ -	\$ (168,000)	\$ 12,340,100	\$ 176,000
Loans	1,122,500	-	(300,000)	822,500	317,500
Unamortized discount	(102,684)	-	7,944	(94,740)	-
Unamortized premium	52,022	-	(14,862)	37,160	-
	<u>\$ 13,579,938</u>	<u>\$ -</u>	<u>\$ (474,918)</u>	<u>\$ 13,105,020</u>	<u>\$ 493,500</u>
Total long-term debt payable					

Bond and loan maturities in each of the next five years and in five year increments thereafter are as follows at December 31, 2020:

Year	Bonds		Loans		Total	Interest to be paid by Federal Government
	Principal	Interest	Principal	Interest		
2021	\$ 183,000	\$ 402,543	\$ 335,000	\$ 24,160	\$ 944,703	\$ 49,158
2022	192,000	396,369	170,000	8,203	766,572	48,298
2023	202,000	389,876	-	-	591,876	47,393
2024	211,000	383,424	-	-	594,424	46,567
2025	220,000	375,951	-	-	595,951	45,451
2026-2030	1,266,000	1,761,314	-	-	3,027,314	210,801
2031-2035	1,585,000	1,523,537	-	-	3,108,537	176,863
2036-2040	1,987,000	1,220,893	-	-	3,207,893	132,701
2041-2045	2,492,000	849,496	-	-	3,341,496	80,172
2046-2050	2,885,100	397,227	-	-	3,282,327	18,991
2051-2052	941,000	44,312	-	-	985,312	-
	<u>\$ 12,164,100</u>	<u>\$ 7,744,942</u>	<u>\$ 505,000</u>	<u>\$ 32,363</u>	<u>\$ 20,446,405</u>	<u>\$ 856,395</u>

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

Bond and Interest Redemption Funds

There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2010 Series A and 2010 Series B.

Depreciation Fund

This fund receives, on a monthly basis, \$27,425 until the balance reaches \$747,000. The fund was fully funded at December 31, 2020 and 2019. This fund also receives the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment.

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 6 - RETIREMENT PLANPlan Description

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

Benefits Provided

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

Contributions

For the calendar year ended December 31, 2020, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019

The District's contractually required contribution rate for the entire calendar year ended December 31, 2020, was 19.30 percent for the entire calendar year. The District's contractually required contribution rate for the calendar year ended December 31, 2019, was 16.22 percent of creditable compensation from January 1 to June 30 and 19.30 percent of creditable compensation from July 1 to December 31. Contributions to the pension plan for the years ended December 31, 2020 and 2019 from the District were \$223,297 and \$201,182. At December 31, 2020 and 2019, the District owed \$30,141 and \$21,366 to the plan for contributions for December.

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

At December 31, 2020, the District reported a liability of \$3,303,127 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 using standard roll-forward techniques. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all, actuarially determined. At June 30, 2020, the District's proportion was 0.043670 percent, which was an increase of .00438 percent from its proportion measured as of June 30, 2019.

For the years ended December 31, 2020 and 2019, the District recognized pension expense of \$223,297 and \$201,182. At December 31, 2020 and 2019, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 82,370	\$ -
Changes in actuarial assumptions	128,982	-
Difference between projected and actual investment earnings	143,179	60,523
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>246,143</u>	<u>-</u>
	<u>\$ 600,674</u>	<u>\$ 60,523</u>
<u>2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 70,555	\$ 11,676
Changes in actuarial assumptions	279,676	-
Difference between projected and actual investment earnings	53,044	97,589
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>147,214</u>	<u>-</u>
	<u>\$ 550,489</u>	<u>\$ 109,265</u>

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019

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

<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2021	\$ 269,907
2022	186,113
2023	50,934
2024	33,197
	<u>\$ 540,151</u>

The total pension liability in the June 30, 2020 actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Discount Rate	6.25 percent
Inflation	2.30 percent
Salary increases	3.30 percent to 10.30 percent, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, 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 2020. 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.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

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

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019

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

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 year (closed) amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The discount rate determination does not use a municipal bond rate. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 4,073,474	\$ 3,303,127	\$ 2,665,250

Pension Plan Fiduciary Net Position

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

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky and is a cost-sharing multiple-employer defined benefit plan. CERS provides other post-employment benefits to plan members and beneficiaries. The Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov. The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Benefits provided

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

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019Contributions

For the calendar year ended December 31, 2020, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

The District's contractually required contribution rate for the entire calendar year ended December 31, 2020, was 4.76 percent of creditable compensation for the entire calendar year. The District's contractually required contribution rate for the calendar year ended December 31, 2019, was 5.26 percent of creditable compensation from January 1 to June 30 and 4.76 percent of creditable compensation from July 1 through December 31. Contributions to the OPEB plan from the District were \$55,072 for the period ended December 31, 2020 and \$56,606 for the year ended December 31, 2019. At December 31, 2019 and 2018, the District owed \$7,434 and \$5,270 to the plan for contributions for December.

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

At December 31, 2020, the District reported a liability of \$1,039,623 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2020, the District's proportion was 0.043054 percent, which was an increase of .003774 percent from its proportion measured as of June 30, 2019.

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019

For the years ended December 31, 2020 and 2019, the District recognized OPEB expense of \$55,072 and \$56,606. At December 31, 2020 and 2019, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

<u>2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 173,699	\$ 173,835
Changes in actuarial assumptions	180,833	1,100
Difference between projected and actual investment earnings	55,768	21,214
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>94,157</u>	<u>705</u>
	<u>\$ 504,457</u>	<u>\$ 196,854</u>
<u>2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 199,340
Changes in actuarial assumptions	195,499	1,307
Difference between projected and actual investment earnings	4,352	33,696
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>54,191</u>	<u>1,015</u>
	<u>\$ 254,042</u>	<u>\$ 235,358</u>

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

<u>Year Ending December 31</u>	<u>OPEB Expense Amount</u>
2021	\$ 80,364
2022	90,590
2023	70,952
2024	66,046
2025	<u>(349)</u>
	<u>\$ 307,603</u>

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019Actuarial assumptions

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05% to 10.30%, including inflation
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post-65	Initial trend starting at 2.90% at January 1, 2022, and gradually increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Municipal Bond Index Rate	2.45%
Discount Rate	5.34%

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

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

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019

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

The projection of cash flows used to determine the discount rate of 5.34% 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 2.45%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.34%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage- point lower (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

	<u>1% Decrease (4.34%)</u>	<u>Current Discount Rate (5.34%)</u>	<u>1% Increase (6.34%)</u>
District's proportionate share of the net OPEB liability	\$ 5,524,726	\$ 1,039,623	\$ 3,294,784

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019Sensitivity Of The District's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Healthcare Cost Trend Rates

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

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1%</u> <u>Increase</u>
District's proportionate share of the net OPEB liability	\$ 3,329,569	\$ 1,039,623	\$ 5,478,482

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

NOTE 9 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2020 and 2019:

<u>Source</u>	<u>2020</u>	<u>2019</u>
Developers	\$ 934,120	\$ 854,161
Customers	179,082	108,750
	<u>\$ 1,113,202</u>	<u>\$ 962,911</u>

(Continued next page)

OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 10 – RENTAL AGREEMENTS

The District has entered into agreements to lease space on its water towers to various telephone customers. Rental income during the years ended December 31, 2020 and 2019 was \$116,711 and \$113,077. The following schedule represents future payments to be received.

<u>Year</u>	<u>Amount</u>
2022	\$ 100,224
2023	16,739
2024	<u>16,739</u>
	<u>\$ 133,702</u>

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District was insured for workers' compensation, general liability and automobile liability coverage under a retrospectively rated commercial policy. Any settlements did not exceed coverage for each of the past three years.

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OLDHAM COUNTY WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 12 – COMMITMENTS AND CONTINGENCIES

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the basic financial statements as a result of the cases presently in progress.

The District has construction commitments for ongoing projects.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss.

REQUIRED SUPPLEMENTARY INFORMATION

OLDHAM COUNTY WATER DISTRICT

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

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net pension liability	0.043670%	0.039290%	0.036242%
Proportionate share of the net pension liability	\$ 3,303,127	\$ 2,763,283	\$ 2,207,248
Covered payroll	\$ 1,136,025	\$ 1,062,616	\$ 908,025
Proportionate share of the net pension liability as percentage of covered payroll	290.8%	260.0%	243.1%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.035037%	0.034977%	0.036791%
Proportionate share of the net pension liability	\$ 2,050,823	\$ 1,722,114	\$ 1,581,840
Covered payroll	\$ 869,703	\$ 824,735	\$ 872,018
Proportionate share of the net pension liability as percentage of covered payroll	235.8%	208.8%	181.4%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%

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

OLDHAM COUNTY WATER DISTRICT

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

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.043054%	0.039280%	0.036261%
Proportionate share of the net OPEB liability	\$ 1,039,623	\$ 660,672	\$ 643,807
Covered payroll	\$ 1,136,025	\$ 1,062,616	\$ 908,025
Proportionate share of the net OPEB liability as percentage of covered payroll	91.5%	62.2%	70.9%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%

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

OLDHAM COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 223,297	\$ 201,182	\$ 145,797
Contribution in relation to the actuarially determined contributions	<u>223,297</u>	<u>201,182</u>	<u>145,797</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,156,977	\$ 1,130,932	\$ 945,862
Contributions as a percentage of covered payroll	19.30%	17.79%	15.41%
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 127,995	\$ 109,171	\$ 109,845
Contribution in relation to the actuarially determined contributions	<u>127,995</u>	<u>109,171</u>	<u>109,845</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 899,670	\$ 824,784	\$ 866,501
Contributions as a percentage of covered payroll	14.23%	13.24%	10.62%

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

OLDHAM COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 55,072	\$ 56,606	\$ 47,299
Contribution in relation to the actuarially determined contributions	<u>55,072</u>	<u>56,606</u>	<u>47,299</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,156,977	\$ 1,130,932	\$ 945,862
Contributions as a percentage of covered payroll	4.76%	5.00%	5.00%

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

OLDHAM COUNTY WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2020

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2020.

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

2015 – The assumed investment rate of return was decreased from 7.75% to 7.50%. The assumed rate of inflation was reduced from 3.50% to 3.25%. The assumed rate of wage inflation was reduced from 1.00% to 0.75%. Payroll growth assumption was reduced from 4.50% to 4.00%. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

2016 and 2017 – No changes.

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

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

2020 – No changes.

OLDHAM COUNTY WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2020

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 through 2020.

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

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

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

2020 – The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

INTERNAL CONTROL AND FISCAL COMPLIANCE



HCA

Heartland CPAs and Advisors PLLC

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

Board of Commissioners
Oldham County Water District
Buckner, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oldham County Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements and have issued our report thereon dated March 19, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oldham 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oldham County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Oldham County Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is 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 Oldham County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
March 19, 2021