

**PENDLETON COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

# PENDLETON COUNTY WATER DISTRICT

## FINANCIAL STATEMENTS

December 31, 2020 and 2019

### Table of Contents

	<u>Pages</u>
Board of Commissioners	1
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-9
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to the Financial Statements	13-28
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure - Non-Hazardous	29
Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure - Non-Hazardous	30
Schedules of Operations, Maintenance and Administrative Expenses	31
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 <i>Government Auditing Standards</i>	32-33

**PENDLETON COUNTY WATER DISTRICT**

**BOARD OF COMMISSIONERS**

**December 31, 2020 and 2019**

L.R. Faulkner, Jr., Chairman

Dave Boden, Vice-Chairman

Brent Moore, Treasurer

Larry "Rick" Adams, Secretary

Joe Strange, Commissioner

**Of Counsel**

Stacey S. Sanning, Pendleton County Attorney

**Administration**

Ricky King, General Manager

## **Independent Auditor's Report**

**To the Board of Commissioners  
Pendleton County Water District**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Pendleton County Water District (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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **-Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Pendleton 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 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 5–9 and pension and OPEB disclosure information on pages 29-30 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 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 Information**

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Pendleton County Water District's basic financial statements. The supplementary schedules on page 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2021 on our consideration of Pendleton 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 solely 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 Pendleton County Water District's 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 Pendleton County Water District's internal control over financial reporting and compliance.

*Chamberlin Owen & Co., Inc.*

**Chamberlin Owen & Co., Inc.**  
Erlanger, Kentucky  
May 3, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2020. The information is presented in conjunction with the audited financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent year by \$7,756,706 (net position). This was a decrease of \$170,803. This decrease is due to increases in employee wages, employee benefits and the net effect of change in pension expense related to booking the District's portion of the unfunded pension and OPEB liability. The District also experienced a decrease in Miscellaneous income due to the fact they could not charge penalties on past due accounts due to Covid 19 guidelines. There was also a decrease in interest income for the year.
- At the end of the current year, unrestricted net position was \$276,257.

### **USING THIS ANNUAL REPORT**

The financial statements presented herein include all the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

### **Basis of Accounting**

The District's financial statements are prepared using the accrual basis of accounting.

### **The Statements of Net Position and Revenues, Expenses and Changes in Net Position**

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of providing potable water to those customers.

## SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2020 and 2019:

**Table 1**  
**Net Position**

	<u>2020</u>	<u>2019</u>
Current assets	\$ 381,936	\$ 405,691
Restricted assets	1,494,417	1,419,287
Capital assets, net	8,501,431	8,635,163
Deferred outflows of resources - pension & OPEB contribution	<u>390,775</u>	<u>331,076</u>
Total Assets and Deferred Outflows of Resources	<u>10,768,559</u>	<u>10,791,217</u>
Current liabilities	104,216	108,390
Liabilities payable from restricted assets	130,493	130,778
Long-term liabilities	2,690,183	2,502,894
Deferred inflows of resources - pension & OPEB	<u>86,961</u>	<u>121,646</u>
Total Liabilities and Deferred Inflows of Resources	<u>3,011,853</u>	<u>2,863,708</u>
Net Position:		
Net investment in capital assets	7,209,337	7,271,799
Restricted	271,112	272,600
Unrestricted	<u>276,257</u>	<u>383,110</u>
Total Net Position	<u>\$ 7,756,706</u>	<u>\$ 7,927,509</u>

The District's net position for 2020 decreased 2.2% or \$170,803. This decrease is due to increases in employee wages and benefits during 2020 and increases in the net effect of change in pension expense related to booking the District's portion of the unfunded pension and OPEB liability.

The largest portion of the District's net position (92.9%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still 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 the debt.

An additional portion of the District's net position (3.5%) is restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.



Table 2 compares the revenues and expenses for the current year and the previous year.

**Table 2**  
**Changes in Net Position**

	2020	2019
Operating revenues:		
Water sales	\$ 1,505,469	\$ 1,350,121
Forfeited discounts	5,248	22,920
Miscellaneous services revenues	10,562	14,480
Total operating revenues	<u>1,521,279</u>	<u>1,387,521</u>
Operating expenses:		
Water purchased	497,591	451,961
Operation and maintenance expense	786,489	759,860
Depreciation	245,402	241,460
Total operating expenses	<u>1,529,482</u>	<u>1,453,281</u>
Net operating profit	<u>(8,203)</u>	<u>(65,760)</u>
Non-operating income (expenses)		
Investment income	11,424	22,404
Gain (loss) disposal of assets	(18,030)	(9,810)
Net effect on change in pension expense	(163,052)	(138,336)
Interest on long-term debt	(43,399)	(45,487)
Amortization of bond premium	1,006	2,270
Net non-operating expenses	<u>(212,051)</u>	<u>(168,959)</u>
Income (loss) before capital contributions	(220,254)	(234,719)
Capital grants and contributions	49,451	54,506
Change in net position	<u>(170,803)</u>	<u>(180,213)</u>
Net position, January 1	<u>7,927,509</u>	<u>8,107,722</u>
Net position, December 31	<u>\$ 7,756,706</u>	<u>\$ 7,927,509</u>

## **SUMMARY OF CHANGES IN NET POSITION**

### Revenues

Operating revenues increased \$133,758 or 9.6% from 2019 to 2020. This is primarily due to the difference in water consumption between the two years and the addition of new customers.

### Operation and Maintenance Expense

Operation and maintenance expense increased \$26,629 or 3.5% from 2019 to 2020. This increase was primarily due to an increase in employee salaries and benefits and an increase in bad debts. All employees received raises, the cost of health insurance increased, and the employers' share of retirement contributions increased to 24.06% of covered wages for all of 2020.

### Net Effect on Change in Pension and OPEB Expense

In recording the District's proportionate share of the unfunded pension and OPEB liability and the related deferred inflows and outflows, the District calculates the annual expense related to this unfunded liability. During 2020 this expense increased \$24,716 or 17.9% over the amount reported in 2019.

### Capital Contributions

Capital contributions decreased \$5,055 or 9.3% from 2019 to 2020. The District collected tap on fees from 48 new customers along existing lines during 2020 in comparison to 42 new customers during 2019. The District experienced a decrease in contributions from the state since the majority of a relocation project was collected in 2019 with only a small balance left to be collected in 2020.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At December 31, 2020, the District had \$8,501,431 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$133,732. During 2020, depreciation expense exceeded the cost of new equipment and the construction cost of a small line extension project, causing net capital assets to decrease. The District also retired some equipment which contributed to the decrease in capital assets.

Table 3 Summarizes the District's capital assets at the end of 2020 as compared to 2019.

**Table 3  
Capital Assets at Year End**

	<u>2020</u>	<u>2019</u>
Land	\$ 63,176	\$ 63,176
Transmission lines and equipment	13,291,305	13,221,847
Furniture and fixtures	57,602	57,602
Machinery and equipment	388,196	385,198
Buildings and improvements	335,092	335,092
Construction in progress	25,016	20,822
Subtotal	<u>14,160,387</u>	<u>14,083,737</u>
Accumulated depreciation	<u>(5,658,956)</u>	<u>(5,448,574)</u>
Capital Assets, net	<u>\$ 8,501,431</u>	<u>\$ 8,635,163</u>

### **Debt Outstanding**

Table 4 illustrates the District's outstanding debt at the end of 2020 compared to 2019.

	<u>2020</u>	<u>2019</u>
Bond payable obligations	<u>\$ 1,285,000</u>	<u>\$ 1,354,000</u>
Total	<u>\$ 1,285,000</u>	<u>\$ 1,354,000</u>

At year-end, the District had \$1,285,000 in outstanding bonds compared to \$1,354,000 last year. This is a decrease of \$69,000 or 5.1%. Scheduled principal payments for 2021 are \$69,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's budget for 2021 projects an increase in net position, in contrast to the decrease in prior years. This is primarily due to a rate increase that was approved by the Public Service Commission in early 2020. In addition, the District expects capital grants to increase due to a line replacement project along US 27 that is being funded by the Kentucky Department of Transportation. Even though operating expenses are expected to increase 4%, the District is looking forward to a good year during 2021.

## **FINANCIAL CONTACT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 331 Highway 330 West, Falmouth, Kentucky 41040.

*Ricky L. King*

Ricky King, General Manager  
Pendleton County Water District

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>STATEMENTS OF NET POSITION</b> <b>December 31, 2020 and 2019</b>
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	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 206,156	\$ 197,260
Accounts receivable	118,578	147,933
Inventories	28,772	31,235
Prepays	24,999	26,185
Accrued interest income	3,431	3,078
Total Current Assets	<u>381,936</u>	<u>405,691</u>
Restricted Assets		
Improvement, repair, and replacement	1,148,758	1,076,607
Depreciation reserve	198,520	195,577
Bond sinking fund	101,698	102,519
Customer deposits	45,441	44,584
Total Restricted Assets	<u>1,494,417</u>	<u>1,419,287</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	14,160,387	14,083,737
Less: accumulated depreciation	<u>(5,658,956)</u>	<u>(5,448,574)</u>
Total Capital Assets, net of depreciation	<u>8,501,431</u>	<u>8,635,163</u>
<b>TOTAL ASSETS</b>	<b>10,377,784</b>	<b>10,460,141</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred outflows related to rate case expense	7,166	8,290
Deferred outflows related to pensions and OPEB	383,609	322,786
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b><u>10,768,559</u></b>	<b><u>10,791,217</u></b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	44,878	49,467
Accrued and withheld liabilities	58,488	57,223
Deferred income	850	1,700
Total Current Liabilities	<u>104,216</u>	<u>108,390</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds and lease obligations - current portion	69,000	69,000
Customer deposits	42,964	42,361
Accrued interest payable	18,529	19,417
Total Current Liabilities Payable From Restricted Assets	<u>130,493</u>	<u>130,778</u>
Long-Term Liabilities		
Bonds	1,216,000	1,285,000
Unamortized premium on debt	7,094	9,365
Net unfunded pension and OPEB liability	1,467,089	1,208,529
Total Long-Term Liabilities	<u>2,690,183</u>	<u>2,502,894</u>
<b>TOTAL LIABILITIES</b>	<b>2,924,892</b>	<b>2,742,062</b>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred inflows related to pensions and OPEB	86,961	121,646
<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	<b><u>3,011,853</u></b>	<b><u>2,863,708</u></b>
<b>NET POSITION</b>		
Net investment in capital assets	7,209,337	7,271,798
Restricted	271,712	272,600
Unrestricted	275,657	383,111
<b>TOTAL NET POSITION</b>	<b><u>\$ 7,756,706</u></b>	<b><u>\$ 7,927,509</u></b>

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

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b> <b>For the Years Ending December 31, 2020 and 2019</b>
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	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES</b>		
Water revenue	\$ 1,510,717	\$ 1,373,041
Other service revenues	10,562	14,480
<b>TOTAL OPERATING REVENUES</b>	<u>1,521,279</u>	<u>1,387,521</u>
<b>OPERATING EXPENSES</b>		
Water purchased	497,591	451,961
Operations, maintenance, and administrative expenses	786,489	759,860
Depreciation	245,402	241,460
<b>TOTAL OPERATING EXPENSES</b>	<u>1,529,482</u>	<u>1,453,281</u>
<b>OPERATING (LOSS) PROFIT</b>	<u>(8,203)</u>	<u>(65,760)</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Investment income	11,424	22,404
Gain (loss) on disposal of assets	(18,030)	(9,810)
Net effect of change in pension expense	(163,052)	(138,336)
Interest on long-term obligations	(43,399)	(45,487)
Amortization of bond premium	1,006	2,270
<b>NET NON-OPERATING EXPENSES</b>	<u>(212,051)</u>	<u>(168,959)</u>
<b>NET LOSS</b>	(220,254)	(234,719)
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	49,451	54,506
<b>CHANGE IN NET POSITION</b>	(170,803)	(180,213)
<b>NET POSITION, JANUARY 1</b>	<u>7,927,509</u>	<u>8,107,722</u>
<b>NET POSITION, DECEMBER 31</b>	<u>\$ 7,756,706</u>	<u>\$ 7,927,509</u>

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

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>STATEMENTS OF CASH FLOWS</b> <b>For the Years Ending December 31, 2020 and 2019</b>
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	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 1,550,634	\$ 1,387,425
Paid to suppliers for goods and services	(720,176)	(664,974)
Paid to or on behalf of employees for services	(563,579)	(546,056)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>266,879</u>	<u>176,395</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition and construction of fixed assets	(129,701)	(172,454)
Rate increase deferred costs	(140)	(8,290)
Interest received on investments	11,071	22,357
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(118,770)</u>	<u>(158,387)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long term debt	(69,000)	(63,500)
Interest paid on long term debt	(44,287)	(46,277)
Contributed capital received	43,407	36,384
Grant proceeds	5,194	19,822
Increase in restricted cash	(75,130)	(51,617)
(Decrease) increase in customer deposits	603	2,174
<b>NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(139,213)</u>	<u>(103,014)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	8,896	(85,006)
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR</b>	197,260	282,266
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<u>\$ 206,156</u>	<u>\$ 197,260</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating (loss) income	\$ (8,203)	\$ (65,760)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	245,402	241,460
Change in operating assets and liabilities		
Decrease (Increase) in receivables	29,355	(96)
Decrease (Increase) in inventories	2,463	(2,069)
Decrease (Increase) in prepaid assets	1,186	(236)
Increase (Decrease) in accounts payable	(4,589)	205
Increase (Decrease) in other accrued liabilities	1,265	2,891
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 266,879</u>	<u>\$ 176,395</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest expensed	<u>\$ (43,399)</u>	<u>\$ (45,487)</u>

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

<p><b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b></p>
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**NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES**

The Pendleton County Water District (District) is a water utility, which provides service to residential and commercial customers in Pendleton County, Kentucky. The District was created by the Pendleton County Fiscal Court under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”) in 1958. The District’s current service area includes parts of Pendleton, Campbell, and Grant Counties.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments in the United States of America.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, 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 and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Cash Equivalents

For purposes of the statements of net position and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government’s website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
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Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the “Non-Operating Income (Expense)” portion of the Statements of Revenues, Expenses, and Changes in Net Position.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as “Construction in Progress”. When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District’s income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors.

During 2020 and 2019 these contributions consisted of the following:

<u>Source</u>	<u>2020</u>	<u>2019</u>
Tap in fees and construction costs paid by new customers	\$ 41,757	\$ 34,684
Donated capital	2,500	-
Total	<u>\$ 44,257</u>	<u>\$ 34,684</u>

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.



<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
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**NOTE 2 – DEPOSITS AND INVESTMENTS**

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the Statement of position as “Cash and Cash Equivalents” and “Restricted Assets”. At December 31, 2020 and 2019, the balances were \$206,156 and \$197,260, respectively. The District has amounts on deposit with three banks in excess of FDIC insured amounts. The banks have pledged collateral to cover such excess amounts. Funds in excess of current expenses or obligations of the District are invested in certificates of deposit issued by, or other interest bearing accounts of, banks that are insured by the Federal Deposit Insurance Corporation.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments' fair value measurements are as follows at December 31, 2020:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and Cash Equivalents				
Money market funds	\$ 1,123,463	\$ 1,031,882	\$ 91,581	\$ -
Certificate of deposits	577,110	577,110	-	-
<b>Total</b>	<b>\$ 1,700,573</b>	<b>\$ 1,608,992</b>	<b>\$ 91,581</b>	<b>\$ -</b>

Investments' fair value measurements are as follows at December 31, 2019:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and Cash Equivalents				
Money market funds	\$ 1,047,718	\$ 955,493	\$ 92,225	\$ -
Certificate of deposits	568,829	568,829	-	-
<b>Total</b>	<b>\$ 1,616,547</b>	<b>\$ 1,524,322</b>	<b>\$ 92,225</b>	<b>\$ -</b>

In accordance with GASB 40, the District has \$91,581 and \$92,225 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2020 and 2019, respectively. The market risk on these investments is negligible.

**NOTE 3 – RESTRICTED NET POSITION**

Net position is comprised of net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
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assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories. Included in the restricted portion of net position at December 31,

	2020	2019
Depreciation Reserve Fund	\$ 196,687	\$ 196,752
Bond Sinking Fund	75,025	75,848
Total Restricted Net Position	<u>\$ 271,712</u>	<u>\$ 272,600</u>

#### NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment, including infrastructure assets, are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

The property, plant and equipment accounts are summarized as follows:

Asset Type	Balance at December 31, 2019	Additions	Retirements	Balance at December 31, 2020
Land	\$ 63,176	\$ -	\$ -	\$ 63,176
Buildings and improvements	335,092	-	-	335,092
Distribution reservoirs and standpipes	997,511	-	-	997,511
Furniture and fixtures	57,602	-	-	57,602
Hydrants	203,747	-	-	203,747
Meter system and installation	654,802	52,881	(50,590)	657,093
Other plant and misc. equipment	158,772	-	-	158,772
Pumping equipment	448,724	-	-	448,724
Services	818,576	30,479	-	849,055
Tools and equipment	29,946	2,908	-	32,854
Transmission mains	10,098,487	36,688	-	10,135,175
Transportation equipment	196,480	2,550	(2,460)	196,570
Construction in progress	20,822	40,882	(36,688)	25,016
Subtotal	14,083,737	166,388	(89,738)	14,160,387
Accumulated depreciation	<u>(5,448,574)</u>	<u>(245,402)</u>	<u>35,020</u>	<u>(5,658,956)</u>
Capital Assets, net	<u>\$ 8,635,163</u>	<u>\$ (79,014)</u>	<u>\$ (54,718)</u>	<u>\$ 8,501,431</u>

**PENDLETON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

**NOTE 5 – LONG TERM DEBT**

The following is a summary of the District's debt:

Debt Instrument	Balance at December 31, 2019	Additions	Retirements	Balance at December 31, 2020
Revenue bonds of 2010	\$ 194,000	\$ -	\$ (4,000)	\$ 190,000
Kentucky Rural Water Finance Corp.	95,000	-	(25,000)	70,000
Kentucky Rural Water Finance Corp.	1,065,000	-	(40,000)	1,025,000
Subtotal	1,354,000	\$ -	\$ (69,000)	1,285,000
Less: current portion of long-term debt	(69,000)			(69,000)
Total Long-Term Indebtedness	\$ 1,285,000			\$ 1,216,000

Water Works System Revenue Bonds, U.S. Department of Agriculture 2010

On July 30, 2010, the District sold \$220,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. Principal payments are due annually on January 1 of each year beginning in 2012 and ending in 2049. Interest is payable January 1 and July 1 of each year. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	3.25%	\$ 4,000	\$ 6,110	\$ 10,110
2022	3.25%	4,000	5,980	9,980
2023	3.25%	4,000	5,850	9,850
2024	3.25%	4,500	5,712	10,212
2025	3.25%	4,500	5,566	10,066
2026-2030	3.25%	25,000	25,496	50,496
2031-2035	3.25%	29,500	21,085	50,585
2036-2040	3.25%	35,500	15,803	51,303
2041-2045	3.25%	42,000	9,507	51,507
2046-2049	3.25%	37,000	2,339	39,339
Totals		\$ 190,000	\$ 103,448	\$ 293,448

Kentucky Rural Water Finance Corporation

On March 27, 2013, The District entered into a loan agreement with the Kentucky Rural Water Finance Corporation (KRWFC) for a promissory note in the amount of \$215,000. Concurrent with this loan agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2013C which refunded the District's Series 2001A bonds. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on January 1 beginning in 2014 and ending January 1, 2024. Interest is payable January 1 and July 1 of each year. These bonds were issued at a premium of \$24,225 which is being amortized over the life of the bonds. As of December 31, 2020, \$2,270 of the premium was amortized. The District achieved substantial interest cost savings under this program.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
---

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	4.300%	\$ 25,000	\$ 2,623	\$ 27,623
2022	4.300%	15,000	1,762	16,762
2023	4.800%	15,000	1,080	16,080
2024	4.800%	15,000	360	15,360
Totals		\$ 70,000	\$ 5,825	\$ 75,825

Kentucky Rural Water Finance Corporation

On February 19, 2015, The District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation for a loan in the amount of \$1,210,000. Concurrent with this agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2015B which refunded the District's outstanding Series 1997 Bonds and Series 2004 Bonds. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on February 1 beginning in 2016 and ending February 1, 2041. Interest is payable February 1 and August 1 of each year. These bonds were issued at a premium of \$432 which is being amortized over the life of the bonds. The District achieves substantial interest cost savings under this program. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2021	2.250%	\$ 40,000	\$ 33,450	\$ 73,450
2022	3.250%	40,000	32,350	72,350
2023	3.250%	45,000	30,969	75,969
2024	3.250%	45,000	29,506	74,506
2025	3.250%	45,000	28,044	73,044
2026-2030	3.250%	255,000	116,656	371,656
2031-2035	3.250%-3.350%	320,000	69,525	389,525
2036-2040	3.500%-3.625%	210,000	17,972	227,972
2041	3.625%	25,000	453	25,453
Totals		\$ 1,025,000	\$ 358,925	\$ 1,383,925

**NOTE 6 – EMPLOYEE RETIREMENT SYSTEM**

*Plan description* - Employees are covered by CERS (County Employees Retirement System), a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statue ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications. The Pendleton County Water District

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
---

has only Non-Hazardous employees.

Membership in CERS consisted of the following at June 30, 2019:

	Non-Hazardous	
	Pension	OPEB
Active Plan Members	81,506	81,147
Inactive Plan Members	91,543	29,362
Retired Members	64,539	36,371
	<u>237,588</u>	<u>146,880</u>
Number of participating employers		<u>1,136</u>

**PENSION PLAN**

**Non-Hazardous Pension Plan Description**

*Benefits Provided* – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
---

*Contributions* – Required pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	5%
Tier 2	5%
Tier 3	5%

**Contributions**

For non-hazardous duty employees, the District contributed 24.06% (from January – June 2020) of which 19.30% was for the pension fund and 4.76% was for the health insurance fund, and 24.06% (from July – December 2020) of which 19.30% was for the pension fund and 4.76% was for the health insurance fund, of the non-hazardous duty covered-employee’s compensation during the fiscal year ended December 31, 2020.

The District made all required contributions for the non-hazardous Plan obligation for the fiscal year in the amount of \$92,557, of which \$74,246 was for the pension fund and \$18,311 was for the health insurance fund.

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

At December 31, 2020, the District reported a liability of \$1,115,896 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the District's non-hazardous employer allocation proportion was 0.014549% of the total CERS non-hazardous duty employees. For the year ended December 31, 2020, the District recognized pension expense of \$136,065 in addition to its \$74,246 pension contribution.

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
---

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 27,827	\$ -
Net difference between projected actual earnings on plan investments	27,924	-
Changes of assumptions	43,574	-
Changes in proportion and differences between contributions and proportionate share of contributions	56,721	-
Contributions subsequent to the measurement date	37,963	-
	<u>\$ 194,009</u>	<u>\$ -</u>

The District's contributions subsequent to the measurement date of \$37,963 will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ending June 30,	Net Deferral
2021	\$ 78,023
2022	51,267
2023	15,541
2024	11,215
	<u>\$ 156,046</u>

### Actuarial Assumptions

The total pension liability as of December 31, 2020 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2020, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level percentage of payroll
Amortization period	25 years, closed
Payroll growth rate	2.00%
Investment rate of return	6.25%
Inflation	2.30%
Salary increases	3.05-11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set-back 1 year for females)

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
---

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. 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 log-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 the 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 covers a longer timeframe. The assumption is intended to be a long-term assumption and is 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.

### Changes of Assumptions

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

### Plan Target Allocation

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	CERS Pensions (Haz & Non-Haz) Target Allocation	Long Term Expected Nominal Return
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	15.00%	3.95%
Total	100.00%	

### Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.



<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
---

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

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

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.25%	6.25%	7.25%
Net pension liability, non-hazardous	\$ 1,376,143	\$ 1,115,896	\$ 900,402

**HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS**

**Non-Hazardous OPEB Plan Description**

*Benefits Provided* – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
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*Contributions* – Required health insurance plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	None
Tier 2	1%
Tier 3	1%

### Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for January - June 2020, was 4.76% and for July – December 2020 was 4.76% of covered-employee payroll for non-hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$18,311 for non-hazardous duty employees for the year ended December 31, 2020.

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

At December 31, 2020, the District reported a liability of \$351,193 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 that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2020, the District's proportion of the non-hazardous plan was 0.014544%.

For the year ended December 31, 2020, the District recognized an OPEB expense of \$26,987, in addition to its \$18,311 OPEB contribution. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Non-Hazardous</u>	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 58,677	\$ (58,723)
Net difference between projected actual earnings on plan investments	11,673	-
Changes of assumptions	61,087	(371)
Changes in proportion and differences between contributions and proportionate share of contributions	21,188	(255)
Contributions subsequent to the measurement date	9,363	-
	<u>\$ 161,988</u>	<u>\$ (59,349)</u>

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
---

The District's contributions subsequent to the measurement date, \$35,338 for non-hazardous duty employees 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:

Measurement Year Ending June 30,	Net Deferral
2021	\$ 24,295
2022	2,750
2023	21,122
2024	20,189
2025	(80)
	\$ 68,276

### Actuarial Assumptions

The total OPEB liability as of December 31, 2020 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2020, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level percentage of payroll
Amortization period	25 years, closed
Payroll growth rate	2.00%
Investment rate of return	6.25%
Inflation	2.30%
Salary increases	3.30-11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set-back 1 year for females)
Investment rate of return	6.25%, net of pension plan expense, including inflation,
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set-back 1 year for females)
Healthcare trend rates (Pre-65):	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare trend rates (Post-65):	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
---

Phase-in provision and were incorporated into the liability measurement. Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

**Changes of Assumptions**

The discount rates used to calculate the total OPEB liability decreased for all Funds. 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 GASB No. 74 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. There were no other material assumption changes.

**Plan Target Allocation**

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	CERS Pensions (Haz & Non-Haz) Target Allocation	Long Term Expected Nominal Return
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	15.00%	3.95%
Total	100.00%	

**Discount Rate**

The discount rate used to measure the total OPEB liability was 5.68% for the non-hazardous plan and 5.69% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b>
---

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

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.68% for the non-hazardous plan, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.68%	5.68%	6.68%
Net OPEB liability, non-hazardous	\$ 451,180	\$ 351,193	\$ 269,071

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

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

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 271,911	\$ 351,193	\$ 447,404

**Plan Fiduciary Net Position**

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan’s fiduciary net position. These reports may be obtained, in writing, from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

**NOTE 7 – ECONOMIC DEPENDENCY/CREDIT RISK**

Pendleton County Water District is a government agency operating with one office in Falmouth, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Pendleton, Campbell, and Grant Counties in Kentucky.

**NOTE 8 – CONCENTRATIONS**

The District has agreements to purchase water from the City of Falmouth, Kentucky and the Northern Kentucky Water District through the year 2047. In June 2001, the District signed an agreement to purchase water on an “as needed” basis from the City of Williamstown, Kentucky. This contract is in force until June 2021.

<p><b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2020 and 2019</b></p>
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**NOTE 9 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

Statement No. 83 – *Certain Asset Retirement Obligations – FY 2020*

Statement No. 88 – *Certain Disclosures Related to Debt – FY 2020*

Statement No. 95 – *Postponement of Effective Dates of Authoritative Guidance – FY 2020*

**NOTE 10 – FUTURE ACCOUNTING STANDARDS**

Statement No. 84 – *Fiduciary Activities – FY 2021*

Statement No. 87 – *Leases – FY 2022*

Statement No. 89 – *Accounting for Interest Cost in Construction Projects – FY 2021*

Statement No. 90 – *Majority Equity Interests – FY 2021*

Statement No. 91 – *Conduit Debt Obligations – FY 2023*

Statement No. 92 – *Omnibus 2020 – FY 2022*

Statement No. 93 – *Replacement of Interbank Offered Rates – FY 2022*

Statement No. 94 – *Public-Private and Public-Public Partnerships – FY 2022*

Statement No. 96 – *Subscription-Based Information Technology Arrangements – FY 2022*

Statement No. 97 – *Component Unit Criteria for IRS Section 457 Deferred Comp. Plans – FY 2022*

**NOTE 11 – COVID-19 GLOBAL PANDEMIC**

On January 30, 2020, the World Health Organization announced a global health emergency, later classified as a global pandemic, as a result of the COVID-19 outbreak. The outbreak and response have impacted financial and economic markets across the World and within the United States of America. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. The District's Management and Board continue to actively monitor the impact of the global pandemic on its financial condition, liquidity, operations, suppliers, and industry.

**NOTE 12 – SUBSEQUENT EVENTS**

Management has evaluated events through May 3, 2021, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2020 through May 3, 2021 to disclose.

**PENDLETON COUNTY WATER DISTRICT**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE-NON-HAZARDOUS**  
**Last Ten Fiscal Years**

**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**County Employees' Retirement System (CERS)**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Proportion of net pension liability	0.014549%	0.013868%	0.012790%	0.012697%	0.01185%	0.012160%				
Proportionate share of the net pension liability (asset)	\$ 1,115,896	\$ 975,343	\$ 779,194	\$ 743,194	\$ 583,507	\$ 522,805				
Covered payroll in year of measurement	\$ 372,658	\$ 349,798	\$ 317,097	\$ 309,151	\$ 282,712	\$ 283,700				
Share of the net pension liability (asset) as a percentage of its covered payroll	299.44%	278.83%	245.73%	240.40%	206.40%	184.28%				
Plan fiduciary net position as a percentage of total pension liability	47.81%	50.45%	53.54%	55.50%	55.50%	59.97%				

**Schedule of the District's Contributions**  
**County Employees' Retirement System (CERS)**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 74,246	\$ 65,005	\$ 50,357	\$ 43,127	\$ 33,670	\$ 36,304	\$ 44,559			
Actual contribution	\$ 74,246	\$ 65,005	\$ 50,357	\$ 43,127	\$ 33,670	\$ 36,304	\$ 44,559			
Contribution deficiency (excess)	-	-	-	-	-	-	-			
Covered payroll	\$ 384,693	\$ 365,705	\$ 327,486	\$ 311,455	\$ 294,768	\$ 274,414	\$ 317,238			
Contributions as a percentage of covered payroll	19.30%	17.78%	15.38%	13.85%	11.42%	13.23%	14.05%			

**Notes to Required Supplementary Information**  
**for the Year Ended December 31, 2020**

The net pension liability as of December 31, 2020, is based on the June 30, 2020, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 6 in the Notes to the Financial Statements.

**PENDLETON COUNTY WATER DISTRICT**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE-NON-HAZARDOUS**  
**Last Ten Fiscal Years**

**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**County Employees' Retirement System (CERS)**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Proportion of net OPEB liability	0.014544%	0.13864%	0.012790%							
Proportionate share of the net OPEB liability (asset)	\$ 351,193	\$ 233,186	\$ 227,137							
Covered payroll in year of measurement	\$ 372,658	\$ 349,798	\$ 317,097							
Share of the net pension liability (asset) as a percentage of its covered payroll	94.24%	66.66%	71.63%							
Plan fiduciary net position as a percentage of total OPEB liability	51.67%	60.44%	57.62%							

**Schedule of the District's Contributions**  
**County Employees' Retirement System (CERS)**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 18,311	\$ 18,313	\$ 16,337							
Actual contribution	\$ 18,311	\$ 18,313	\$ 16,337							
Contribution deficiency (excess)	-	-	-							
Covered payroll	\$ 384,693	\$ 365,705	\$ 327,486							
Contributions as a percentage of covered payroll	4.76%	5.01%	4.99%							

**Notes to Required Supplementary Information**  
**for the Year Ended December 31, 2020**

The net pension liability as of December 31, 2020, is based on the June 30, 2020, actuarial valuation. The changes to the elements of the OPEB expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 6 in the Notes to the



<b>PENDLETON COUNTY WATER DISTRICT</b> <b>SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES</b> <b>For the Years Ending December 31, 2020 and 2019</b>
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	<u>2020</u>	<u>2019</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 367,356	\$ 356,307
Employee pension and benefits	173,488	168,640
Advertising	71	124
Bad debt expense	14,368	2,931
Commissioners' fees	24,000	24,000
Contractual services - accounting	25,840	24,220
Contractual services - other	23,541	23,416
Insurance - general and vehicle	20,607	20,579
Insurance - other	119	113
Insurance - workers' compensation	5,201	5,184
Materials and supplies	44,551	41,537
Miscellaneous	4,765	5,057
Purchased power	15,234	16,638
Regulatory commission	2,822	2,651
Rental of equipment	2,436	2,960
Taxes	31,467	29,464
Transportation	16,516	19,427
Utilities	14,107	16,612
	<u>                    </u>	<u>                    </u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 786,489</u>	<u>\$ 759,860</u>

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

**To the Board of Commissioners  
Pendleton 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 business-type activities of Pendleton 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 Pendleton County Water District's basic financial statements and have issued our report thereon dated May 3, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audits of the financial statements, we considered Pendleton County Water District's internal control over financial reporting (internal control) as a basis for designing 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 Pendleton County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pendleton 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### ***Lack of Segregation of Duties***

Condition: We noted that due to the size of the District and financial considerations, some of the executing and recording of transactions are performed by the same person.

Criteria: Segregation of duties is a necessary part of any system of internal control. Segregating the processes of authorizing, executing and recording transactions is essential.

Effect: Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account. The District has determined that the cost of mitigation is not justified when compared to the risk of the related transactions.

Recommendation: Due to the size of the District and other financial considerations, internal controls should be implemented, to the highest appropriate level, to segregate the duties of the personnel. Controls should then be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pendleton 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 could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Chamberlin Owen & Co., Inc.*

**Chamberlin Owen & Co., Inc.**

Erlanger, Kentucky

May 3, 2021