

**PENDLETON COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2021 and 2020**

# PENDLETON COUNTY WATER DISTRICT

## FINANCIAL STATEMENTS

December 31, 2021 and 2020

### 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	13-29
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure - Non-Hazardous	30
Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure - Non-Hazardous	31
Schedules of Operations, Maintenance and Administrative Expenses	32
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>	33-34

**PENDLETON COUNTY WATER DISTRICT**

**BOARD OF COMMISSIONERS**

**December 31, 2021 and 2020**

L.R. Faulkner, Jr., Chairman

Dave Boden, Vice-Chairman

Brent Moore, Treasurer

Larry "Rick" Adams, Secretary

Joe Strange, Commissioner

**Of Counsel**

Joesph Cottingham  
Attorney

**Administration**

Austin Monroe, General Manager

## **Independent Auditor's Report**

**To the Board of Commissioners  
Pendleton County Water District  
Falmouth, Kentucky**

### **Opinions**

We have audited the accompanying financial statements of the business-type activities of the Pendleton County Water District (District), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Pendleton County Water District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Pendleton County Water District as of December 31, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with accounting standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pendleton County Water District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pendleton County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pendleton County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pendleton County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and *Multiple Employer, Cost Sharing, Defined Benefit Pension and OPEB* disclosures be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the *Schedules of Operations, Maintenance and Administrative Expenses* but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Chamberlin Owen & Co., Inc.*

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

Erlanger, Kentucky

June 10, 2022

## **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, 2021. 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 \$7,806,278 (net position). This was an increase of \$49,572. This increase is due to an increase in the water revenues. In addition, there was also a slight decrease in the operating expenses.
- At the end of the current year, unrestricted net position was \$319,022.

### **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, 2021 and 2020:

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

	<u>2021</u>	<u>2020</u>
Current assets	\$ 422,608	\$ 381,936
Restricted assets	1,625,623	1,494,417
Capital assets, net	8,446,422	8,501,431
Deferred outflows of resources - pension & OPEB contribution	278,017	390,775
Total Assets and Deferred Outflows of Resources	<u>10,772,670</u>	<u>10,768,559</u>
Current liabilities	170,689	104,216
Liabilities payable from restricted assets	122,606	130,493
Long-term liabilities	2,361,013	2,690,183
Deferred inflows of resources - pension & OPEB	312,084	86,961
Total Liabilities and Deferred Inflows of Resources	<u>2,966,392</u>	<u>3,011,853</u>
Net Position:		
Net investment in capital assets	7,225,598	7,209,337
Restricted	261,658	271,112
Unrestricted	319,022	276,257
Total Net Position	<u>\$ 7,806,278</u>	<u>\$ 7,756,706</u>

The District's net position for 2021 increased .64% or \$49,572. This increase is due mainly to an increase in water revenue.

The largest portion of the District's net position (92.6%) 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 (3.4%) 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**

	2021	2020
Operating revenues:		
Water sales	\$ 1,584,262	\$ 1,505,469
Forfeited discounts	23,526	5,248
Miscellaneous services revenues	19,045	10,562
Total operating revenues	<u>1,626,833</u>	<u>1,521,279</u>
Operating expenses:		
Water purchased	506,803	497,591
Operation and maintenance expense	768,344	786,489
Depreciation	238,247	245,402
Total operating expenses	<u>1,513,394</u>	<u>1,529,482</u>
Net operating profit	<u>113,439</u>	<u>(8,203)</u>
Non-operating income (expenses)		
Investment income	7,582	11,424
Gain (loss) disposal of assets	(10,864)	(18,030)
Net effect on change in pension expense	(68,295)	(163,052)
Interest on long-term debt	(41,295)	(43,399)
Amortization of bond premium	584	1,006
Net non-operating expenses	<u>(112,288)</u>	<u>(212,051)</u>
Income (loss) before capital contributions	1,151	(220,254)
Capital grants and contributions	48,421	49,451
Change in net position	<u>49,572</u>	<u>(170,803)</u>
Net position, January 1	<u>7,756,706</u>	<u>7,927,509</u>
Net position, December 31	<u>\$ 7,806,278</u>	<u>\$ 7,756,706</u>

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

#### Revenues

Operating revenues increased \$105,554 or 6.9% from 2020 to 2021. 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 decreased \$18,145 or 2.3% from 2020 to 2021. This decrease was primarily due to a decrease in employee salaries and benefits. This was due to the fact that the general manager who had been with the district for many years retired and the District hired a new general manager at a slightly lower salary due to less years of experience in the position.

### 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 2021 this expense decreased \$94,757 or 58.1% over the amount reported in 2020.

### Capital Contributions

Capital contributions decreased \$1,030 or 2.1% from 2020 to 2021. The District collected tap on fees from 47 new customers along existing lines during 2021 in comparison to 48 new customers during 2020.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At December 31, 2021, the District had \$8,446,422 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 \$55,009. During 2021, 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 2021 as compared to 2020.

**Table 3  
Capital Assets at Year End**

	<u>2021</u>	<u>2020</u>
Land	\$ 63,176	\$ 63,176
Transmission lines and equipment	13,358,658	13,291,305
Furniture and fixtures	58,321	57,602
Machinery and equipment	462,556	388,196
Buildings and improvements	335,940	335,092
Construction in progress	32,366	25,016
Subtotal	<u>14,311,017</u>	<u>14,160,387</u>
Accumulated depreciation	<u>(5,864,595)</u>	<u>(5,658,956)</u>
Capital Assets, net	<u><u>\$ 8,446,422</u></u>	<u><u>\$ 8,501,431</u></u>

### **Debt Outstanding**

Table 4 illustrates the District's outstanding debt at the end of 2021 compared to 2020.

	<u>2021</u>	<u>2020</u>
Bond payable obligations	<u>\$ 1,216,000</u>	<u>\$ 1,285,000</u>
Total	<u><u>\$ 1,216,000</u></u>	<u><u>\$ 1,285,000</u></u>

At year-end, the District had \$1,216,000 in outstanding bonds compared to \$1,285,000 last year. This is a decrease of \$69,000 or 5.4%. Scheduled principal payments for 2022 are \$59,000.

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

The District's budget for 2022 projects an increase in net position, similar to the increase that was experienced in the 2021 calendar year. This is primarily due to a decrease in salaries and benefits as the prior general manager will be retired for the whole year. They are anticipating revenues to remain at approximately the same level as they had been during the 2021 calendar year.

## **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.

*Austin Monroe*

Austin Monroe, General Manager  
Pendleton County Water District

**PENDLETON COUNTY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 229,260	\$ 206,156
Accounts receivable	123,615	118,578
Inventories	34,786	28,772
Prepays	32,045	24,999
Accrued interest income	2,902	3,431
Total Current Assets	<u>422,608</u>	<u>381,936</u>
Restricted Assets		
Improvement, repair, and replacement	1,290,873	1,148,758
Depreciation reserve	201,520	198,520
Bond sinking fund	84,817	101,698
Customer deposits	48,413	45,441
Total Restricted Assets	<u>1,625,623</u>	<u>1,494,417</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	14,311,017	14,160,387
Less: accumulated depreciation	<u>(5,864,595)</u>	<u>(5,658,956)</u>
Total Capital Assets, net of depreciation	<u>8,446,422</u>	<u>8,501,431</u>
<b>TOTAL ASSETS</b>	<b>10,494,653</b>	<b>10,377,784</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred outflows related to rate case expense	5,480	7,166
Deferred outflows related to pensions and OPEB	272,537	383,609
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b><u>10,772,670</u></b>	<b><u>10,768,559</u></b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	112,710	44,878
Accrued and withheld liabilities	48,492	58,488
Deferred income	9,487	850
Total Current Liabilities	<u>170,689</u>	<u>104,216</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds and lease obligations - current portion	59,000	69,000
Customer deposits	45,965	42,964
Accrued interest payable	17,641	18,529
Total Current Liabilities Payable From Restricted Assets	<u>122,606</u>	<u>130,493</u>
Long-Term Liabilities		
Bonds	1,157,000	1,216,000
Unamortized premium on debt	4,824	7,094
Net unfunded pension and OPEB liability	1,199,189	1,467,089
Total Long-Term Liabilities	<u>2,361,013</u>	<u>2,690,183</u>
<b>TOTAL LIABILITIES</b>	<b>2,654,308</b>	<b>2,924,892</b>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred inflows related to pensions and OPEB	312,084	86,961
<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	<b><u>2,966,392</u></b>	<b><u>3,011,853</u></b>
<b>NET POSITION</b>		
Net investment in capital assets	7,225,598	7,209,337
Restricted	261,658	271,712
Unrestricted	319,022	275,657
<b>TOTAL NET POSITION</b>	<b><u>\$ 7,806,278</u></b>	<b><u>\$ 7,756,706</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, 2021 and 2020</b>
--

	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUES</b>		
Water revenue	\$ 1,607,788	\$ 1,510,717
Other service revenues	19,045	10,562
<b>TOTAL OPERATING REVENUES</b>	<u>1,626,833</u>	<u>1,521,279</u>
<b>OPERATING EXPENSES</b>		
Water purchased	506,803	497,591
Operations, maintenance, and administrative expenses	768,344	786,489
Depreciation	238,247	245,402
<b>TOTAL OPERATING EXPENSES</b>	<u>1,513,394</u>	<u>1,529,482</u>
<b>OPERATING PROFIT (LOSS)</b>	<u>113,439</u>	<u>(8,203)</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Investment income	7,582	11,424
Gain (loss) on disposal of assets	(10,864)	(18,030)
Net effect of change in pension expense	(68,295)	(163,052)
Interest on long-term obligations	(41,295)	(43,399)
Amortization of bond premium	584	1,006
<b>NET NON-OPERATING EXPENSES</b>	<u>(112,288)</u>	<u>(212,051)</u>
<b>NET GAIN (LOSS)</b>	1,151	(220,254)
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<u>48,421</u>	<u>49,451</u>
<b>CHANGE IN NET POSITION</b>	49,572	(170,803)
<b>NET POSITION, JANUARY 1</b>	<u>7,756,706</u>	<u>7,927,509</u>
<b>NET POSITION, DECEMBER 31</b>	<u>\$ 7,806,278</u>	<u>\$ 7,756,706</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, 2021 and 2020</b>
---

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 1,621,796	\$ 1,550,634
Paid to suppliers for goods and services	(675,663)	(720,176)
Paid to or on behalf of employees for services	(554,708)	(563,579)
	<u>391,425</u>	<u>266,879</u>
<b>NET CHANGE IN CASH FROM OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition and construction of fixed assets	(194,102)	(129,701)
Rate increase deferred costs	-	(140)
Interest received on investments	8,111	11,071
	<u>(185,991)</u>	<u>(118,770)</u>
<b>NET CHANGE IN CASH FROM INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long term debt	(69,000)	(69,000)
Interest paid on long term debt	(42,183)	(44,287)
Contributed capital received	57,058	43,407
Grant proceeds	-	5,194
Increase in restricted cash	(131,206)	(75,130)
(Decrease) increase in customer deposits	3,001	603
	<u>(182,330)</u>	<u>(139,213)</u>
<b>NET CHANGE IN CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	23,104	8,896
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR</b>	206,156	197,260
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<u>\$ 229,260</u>	<u>\$ 206,156</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CHANGE IN CASH FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 113,439	\$ (8,203)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	238,247	245,402
Change in operating assets and liabilities		
Decrease (Increase) in receivables	(5,037)	29,355
Decrease (Increase) in inventories	(6,014)	2,463
Decrease (Increase) in prepaid assets	(7,046)	1,186
Increase (Decrease) in accounts payable	67,832	(4,589)
Increase (Decrease) in other accrued liabilities	(9,996)	1,265
	<u>\$ 391,425</u>	<u>\$ 266,879</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>SUPPLEMENTAL INFORMATION</b>		
Interest expensed	<u>\$ (41,295)</u>	<u>\$ (43,399)</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, 2021 and 2020</b></p>
--

**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, 2021 and 2020</b>
---

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 2021 and 2020 these contributions consisted of the following:

<u>Source</u>	<u>2021</u>	<u>2020</u>
Tap in fees and construction costs paid by new customers	\$ 48,421	\$ 41,757
Donated capital	-	2,500
Total	<u>\$ 48,421</u>	<u>\$ 44,257</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, 2021 and 2020</b>
---

**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, 2021 and 2020, the balances were \$229,260 and \$206,156, 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, 2021:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and Cash Equivalents				
Money market funds	\$ 1,386,773	\$ 1,306,164	\$ 80,609	\$ -
Certificate of deposits	468,110	468,110	-	-
Total	<u>\$ 1,854,883</u>	<u>\$ 1,774,274</u>	<u>\$ 80,609</u>	<u>\$ -</u>

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	-	-
Total	<u>\$ 1,700,573</u>	<u>\$ 1,608,992</u>	<u>\$ 91,581</u>	<u>\$ -</u>

In accordance with GASB 40, the District has \$80,609 and \$91,581 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2021 and 2020, 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, 2021 and 2020</b>
---

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:

	2021	2020
Depreciation Reserve Fund	\$ 201,520	\$ 196,687
Bond Sinking Fund	60,137	75,025
Total Restricted Net Position	<u>\$ 261,657</u>	<u>\$ 271,712</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, 2020	Additions	Retirements	Balance at December 31, 2021
Land	\$ 63,176	\$ -	\$ -	\$ 63,176
Buildings and improvements	335,092	848	-	335,940
Distribution reservoirs and standpipes	997,511	-	-	997,511
Furniture and fixtures	57,602	719	-	58,321
Hydrants	203,747	-	-	203,747
Meter system and installation	657,093	75,961	(43,472)	689,582
Other plant and misc. equipment	158,772	3,200	-	161,972
Pumping equipment	448,724	-	-	448,724
Services	849,055	34,863	-	883,918
Tools and equipment	31,004	4,068	-	35,072
Transmission mains	10,135,175	-	-	10,135,175
Transportation equipment	196,570	6,883	-	203,453
Computer Equipment	1,850	60,210	-	62,060
Construction in progress	25,016	7,350	-	32,366
Subtotal	<u>14,160,387</u>	<u>194,102</u>	<u>(43,472)</u>	<u>14,311,017</u>
Accumulated depreciation	<u>(5,658,956)</u>	<u>(238,247)</u>	<u>32,608</u>	<u>(5,864,595)</u>
Capital Assets, net	<u>\$ 8,501,431</u>	<u>\$ (44,145)</u>	<u>\$ (10,864)</u>	<u>\$ 8,446,422</u>

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

**NOTE 5 – LONG TERM DEBT**

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

Debt Instrument	Balance at December 31, 2020	Additions	Retirements	Balance at December 31, 2021
Revenue bonds of 2010	\$ 190,000	\$ -	\$ (4,000)	\$ 186,000
Kentucky Rural Water Finance Corp.	70,000	-	(25,000)	45,000
Kentucky Rural Water Finance Corp.	1,025,000	-	(40,000)	985,000
Subtotal	1,285,000	\$ -	\$ (69,000)	1,216,000
Less: current portion of long-term debt	(69,000)			(59,000)
Total Long-Term Indebtedness	<u>\$ 1,216,000</u>			<u>\$ 1,157,000</u>

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
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	3.25%	4,500	5,419	9,919
2027-2031	3.25%	26,000	24,668	50,668
2032-2036	3.25%	30,500	20,110	50,610
2037-2041	3.25%	37,000	14,625	51,625
2042-2046	3.25%	43,500	8,117	51,617
2047-2049	3.25%	27,500	1,291	28,791
Totals		<u>\$ 186,000</u>	<u>\$ 97,338</u>	<u>\$ 283,338</u>

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, 2021 and 2020</b>
---

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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		<u>\$ 45,000</u>	<u>\$ 3,202</u>	<u>\$ 48,202</u>

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
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	3.250%	45,000	26,581	71,581
2027-2031	3.250%	270,000	108,125	378,125
2032-2036	3.25%-3.50%	330,000	58,538	388,538
2037-2041	3.500%-3.625%	165,000	11,362	176,362
Totals		<u>\$ 985,000</u>	<u>\$ 325,475</u>	<u>\$ 1,310,475</u>

**NOTE 6 – EMPLOYEE RETIREMENT SYSTEM**

*Plan description* – District 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 Public Pension Authority, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Public Pension Authority administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Public Pension Authority 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/>.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

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 District has only Non-Hazardous employees.

Membership in CERS consisted of the following at June 30, 2021:

	Non-Hazardous	
	Pension	OPEB
Active Plan Members	81,250	80,745
Inactive Plan Members	95,692	29,208
Retired Members	65,414	37,037
	<u>242,356</u>	<u>146,990</u>
Number of participating employers		<u>1,122</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

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

required for nonservice-related disability benefits.

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

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5%
Tier 3	5%

**Contributions**

The District contributed 24.06% of covered-employee’s compensation (from January – June 2021) of which 19.30% was for the pension fund and 4.76% was for the health insurance fund, and contributed 26.95% of covered-employee’s compensation (from July – December 2021), of which 21.17% was for the pension fund and 5.78% was for the health insurance fund.

The District made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$84,745 of which \$67,261 was for the pension fund and \$17,484 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, 2021, the District reported a liability of \$922,321 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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 the June 30, 2021 measurement year, the District 's non-hazardous employer allocation proportion was 0.01447% of the total CERS non-hazardous duty employees. For the year ended December 31, 2021, the District recognized pension expense of \$53,630 in addition to its \$67,261 pension contribution.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 10,591	\$ (8,952)
Net difference between projected actual earnings on plan investments	-	(122,930)
Changes of assumptions	12,379	-
Changes in proportion and differences between contributions and proportionate share of contributions	23,692	(1,888)
Contributions subsequent to the measurement date	33,912	-
	<u>\$ 80,574</u>	<u>\$ (133,770)</u>

The District's contributions subsequent to the measurement date of \$33,912 will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. 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
2022	\$ 7,367
2023	(28,268)
2024	(27,711)
2025	(38,496)
2026	-
Thereafter	-
	<u>\$ (87,108)</u>

### Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information are based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ending date of June 30, 2021 using generally accepted actuarial procedures.

The actuarially determined contribution effective for the fiscal year ending in 2021 is based on an actuarial valuation date of June 30, 2019, and was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

Valuation date	June 30, 2019
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 percent of pay
Amortization period	30-year, closed period at June 30, 2019
Payroll growth rate	2.00%
Investment rate of return	6.25%
Inflation	2.30%
Salary increases	3.30-10.30%, varies by service
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Phase-in provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

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 2013 through 2018, is outlined in a report dated April 30, 2019. 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, 2020.

### **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 benefit payments to determine the total pension liability.



<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

**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	21.75%	5.70%
Non-US equity	21.75%	6.35%
Private equity	10.00%	9.70%
Specialty credit/high yield	15.00%	2.80%
Core bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real estate	10.00%	5.40%
Real return	10.00%	4.55%
Total	100.00%	

**Sensitivity of the 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%
Non-hazardous	\$ 1,182,920	\$ 922,321	\$ 706,681
Total	\$ 1,182,920	\$ 922,321	\$ 706,681

**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.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

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.

*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 KPPA Trustees. The District contributed 4.76% of covered-employee’s compensation (from January – June 2021) and contributed 5.78% of covered-employee’s compensation (from July – December 2021) for the health insurance fund. These contributions are 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. For the year ended December 31, 2021, the District recognized OPEB expense of \$14,665 in addition to its \$17,484 OPEB contribution.

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

At December 31, 2021, the District reported a liability of \$276,868 as its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, 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

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

contributions of all governmental entities, actuarially determined. At the June 30, 2021 measurement year, the District's proportion of the total non-hazardous plan was 0.01447%.

In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 43,538	\$ (82,664)
Net difference between projected actual earnings on plan investments	-	(43,313)
Changes of assumptions	73,403	(257)
Changes in proportion and differences between contributions and proportionate share of contributions	16,034	(2,351)
Contributions subsequent to the measurement date	9,259	-
	<u>\$ 142,234</u>	<u>\$(128,585)</u>

The District's contributions subsequent to the measurement date, \$9,259 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2022. 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
2022	\$ 11,504
2023	4,914
2024	3,986
2025	(16,014)
2026	-
Thereafter	-
	<u>\$ 4,390</u>

### Actuarial Assumptions

The total OPEB liability, net OPEB liability, and sensitivity information are based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled forward from the valuation date to the plan's fiscal year ending date of June 30, 2021 using generally accepted actuarial procedures.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

The actuarially determined contribution effective for the fiscal year ending in 2021 is based on an actuarial valuation date of June 30, 2019 and 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
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 percent of pay
Amortization period	30-year, closed period at June 30, 2019
Payroll growth rate	2.00%
Investment rate of return	6.25%
Inflation	2.30%
Salary increases	3.30-10.30%, varies by service
Mortality	
Investment rate of return	6.25%, net of OPEB plan expense, including Inflation,
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Healthcare trend rates (Pre-65):	Initial trend starting at 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2020 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 5.50% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in provision	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 from 5.34% to 5.20%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. There were no other material assumption changes.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

### Discount Rate

The discount rate used to measure the total OPEB liability was 5.20% for the non-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.

### 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	21.75%	5.70%
Non-US equity	21.75%	6.35%
Private equity	10.00%	9.70%
Specialty credit/high yield	15.00%	2.80%
Core bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real estate	10.00%	5.40%
Real return	10.00%	4.55%
Total	100.00%	

### Sensitivity of the 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 5.20% 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 4.20%	Current Rate 5.20%	1.00% Increase 6.20%
Discount Rate, Non-Hazardous			
Net OPEB liability, Non-Haz	\$ 380,137	\$ 276,868	\$ 192,118
Total	\$ 380,137	\$ 276,868	\$ 192,118

### Sensitivity of the 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:

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 199,312	\$ 276,868	\$ 370,479
Total	\$ 199,312	\$ 276,868	\$ 370,479

### 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.

### NOTE 9 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 84 – *Fiduciary Activities*  
Statement No. 89 – *Accounting for Interest Cost in Construction Projects* – FY 2021  
Statement No. 90 – *Majority Equity Interests* – FY 2021

The implementation of these standards had no significant effect on the District.

### NOTE 10 – FUTURE ACCOUNTING STANDARDS

Statement No. 87 – *Leases* – FY 2022  
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  
Statement No. 98 – *The Annual Comprehensive Financial Report* – FY 2022  
Statement No. 99 – *Omnibus 2022* – FY 2023

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2021 and 2020</b>
---

**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 June 10, 2022, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2021 through June 10, 2022 to disclose.

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

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Proportion of net pension liability	0.014470%	0.014549%	0.013868%	0.012790%	0.01270%	0.011850%	0.012160%			
Proportionate share of the net pension liability (asset)	\$ 922,321	\$ 1,115,896	\$ 975,343	\$ 779,194	\$ 743,194	\$ 583,507	\$ 522,805			
Covered payroll in year of measurement	\$ 369,492	\$ 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	249.62%	299.44%	278.83%	245.73%	240.40%	206.40%	184.28%			
Plan fiduciary net position as a percentage of total pension liability	57.33%	47.81%	50.45%	53.54%	55.50%	55.50%	59.97%			

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 67,261	\$ 74,246	\$ 65,005	\$ 50,357	\$ 43,127	\$ 33,670	\$ 36,304	\$ 44,559		
Actual contribution	\$ 67,261	\$ 74,246	\$ 65,005	\$ 50,357	\$ 43,127	\$ 33,670	\$ 36,304	\$ 44,559		
Contribution deficiency (excess)	-	-	-	-	-	-	-	-		
Covered payroll	\$ 332,982	\$ 384,693	\$ 365,705	\$ 327,486	\$ 311,455	\$ 294,768	\$ 274,414	\$ 317,238		
Contributions as a percentage of covered payroll	20.20%	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, 2021**

The net pension liability as of December 31, 2021, is based on the June 30, 2021, 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.



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

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Proportion of net OPEB liability	0.014470%	0.01454%	0.138640%	0.01279%						
Proportionate share of the net OPEB liability (asset)	\$ 276,868	\$ 351,193	\$ 233,186	\$ 227,137						
Covered payroll in year of measurement	\$ 369,492	\$ 372,658	\$ 349,798	\$ 317,097						
Share of the net pension liability (asset) as a percentage of its covered payroll	74.93%	94.24%	66.66%	71.63%						
Plan fiduciary net position as a percentage of total OPEB liability	62.91%	51.67%	60.44%	57.62%						

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 17,484	\$ 18,311	\$ 18,313	\$ 16,337						
Actual contribution	\$ 17,484	\$ 18,311	\$ 18,313	\$ 16,337						
Contribution deficiency (excess)	-	-	-	-						
Covered payroll	\$ 332,982	\$ 384,693	\$ 365,705	\$ 327,486						
Contributions as a percentage of covered payroll	5.25%	4.76%	5.01%	4.99%						

**Notes to Required Supplementary Information  
for the Year Ended December 31, 2021**

The net pension liability as of December 31, 2021, is based on the June 30, 2021, 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 Financial Statements.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES</b> <b>For the Years Ending December 31, 2021 and 2020</b>
---

	<u>2021</u>	<u>2020</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 358,615	\$ 367,356
Employee pension and benefits	162,097	173,488
Advertising	-	71
Bad debt expense	(222)	14,368
Commissioners' fees	24,000	24,000
Contractual services - accounting	27,400	25,840
Contractual services - other	25,115	23,541
Insurance - general and vehicle	20,658	20,607
Insurance - other	126	119
Insurance - workers' compensation	4,827	5,201
Materials and supplies	53,506	44,551
Miscellaneous	4,097	4,765
Purchased power	17,242	15,234
Regulatory commission	3,175	2,822
Rental of equipment	2,284	2,436
Taxes	30,388	31,467
Transportation	21,295	16,516
Utilities	13,741	14,107
	<u>                    </u>	<u>                    </u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 768,344</u>	<u>\$ 786,489</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  
Falmouth, 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 business-type activities of Pendleton County Water District as of and for the years ended December 31, 2021 and 2020, 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 June 10, 2022.

**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

June 10, 2022