Todd County Water District

A Component Unit of
Todd County, Kentucky

FINANCIAL STATEMENTS

December 31, 2019 and 2018

Todd County Water District
A Component Unit of Todd County, Kentucky
Table of Contents

REPORT

CRI CARR RIGGS & INGRAM
CPAs and Advisors

Carr, Riggs & Ingram, LLC

922 State Street, Suite 100
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Independent Auditors' Report

Commissioners
Todd County Water District
Elkton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Todd County Water District (the "District"), a component unit of Todd County, Kentucky, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Todd County Water District, as of December 31, 2019 and 2018, and the respective changes in financial position and its' cash flows 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 4 through 9 and select pension and OPEB information on pages 45 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 to 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 schedule of expenditures of federal awards is 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 June 17, 2020, on our consideration of the 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 the 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 the District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
June 17, 2020

FINANCIAL STATEMENTS

Todd County Water District

A Component Unit of Todd County, Kentucky
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

The Todd County Water District's discussion and analysis is designed to offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2019 and 2018. Readers are encouraged to read the Management's Discussion and Analysis included in the audit and the District's financial statements.

• Financial Highlights

- The total assets and deferred outflows of resources of the District exceeded its total liabilities and deferred inflows of resources at the close of the most recent fiscal year by $5,165,698 compared to $4,934,662 in the 2018 fiscal year. This is an increase from the 2017 fiscal year when the total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $5,119,502. Of this amount, $1,299,514 may be used to meet the District's ongoing obligations to citizens and creditors, as compared to $1,117,325 for the 2018 fiscal year and $1,152,422 for the 2017 fiscal year. It is the District's intent to use these assets to operate the District. The restricted net position is earmarked for unbudgeted repairs and maintenance costs and debt service of the District. Total deferred outflows of resources were $180,186 for 2019 compared to $231,979 for 2018 and $301,026 in 2017.

- The District has $5,809,843, in long-term debt, net of current portion, as compared to $6,008,379 for the 2018 fiscal year and $5,875,269 for the 2017 fiscal year. Of this amount, $877,935 is related to the net pension liability formed by the implementation of GASB 68, compared to $855,871 in the 2018 fiscal year and $799,269 in the 2017 fiscal year.

▸ Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) Financial Statements; and 2) Notes to the Financial Statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

▸ Financial Statements

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues and expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The financial statements can be found on pages 10 through 15 of this report.

▸ Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 through 44 of this report.

• Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5,165,698 as compared with $4,934,662 for the 2018 fiscal year and $5,119,502 for the 2017 fiscal year.

Net Position as of December 31, 2019, 2018, and 2017

	2017	2018	2019
Current assets	2,306,181	2,652,117	3,327,084
Capital and other assets	10,340,187	10,843,426	12,151,437
Total Assets	12,646,368	13,495,543	15,478,521
Deferred amount of debt refundings	12,859	12,038	11,217
Pension related	288,167	282,711	251,906
Total Deferred Outflows of Resources	301,026	294,749	263,123
Long-term liabilities	5,875,269	6,008,379	5,809,843
Other liabilities (current)	1,878,919	2,737,306	4,573,502
Total Liabilities	7,754,188	8,745,685	10,383,345

	2017	2018	2019
Pension related	73,704	109,945	192,601
Total Deferred Outflows of Resources	73,704	109,945	192,601
Net Position			
Net investment in capital assets	3,864,098	3,486,474	3,392,360
Restricted	340,922	330,863	473,824
Unrestricted	914,482	1,117,325	1,299,514
Total Net Position	**5,119,502**	**4,934,662**	**5,165,698**

By far the largest portion of the District's net position in the amount of $3,392,360 reflects its investment in capital assets (e.g., infrastructure, buildings, equipment, and vehicles). This is a decrease from $3,486,474 for the 2018 fiscal year and $4,114,205 in the 2017 fiscal year. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Unrestricted net assets in the amount $1,299,514 may be used to meet the District's ongoing obligation to customers and creditors. This is an increase from $1,117,325 from the 2018 fiscal year and $914,482 from the 2017 fiscal year. The remaining restricted net position is for replacement reserves for future years.

Deferred Outflows of Resources decreased to $263,123 in 2019 from $294,749 in 2018. Deferred Outflows of Resources decreased in 2018 from $301, 026 in 2017. This decrease included $176, 969 in pension related outflows and $62, 770 in OPEB related outflows.

At December 31, 2019, and 2018, the District is able to report positive balances in all categories of net assets.

Changes in Net Position

	2017	2018	2019
Revenues			
Water service revenues	2,160,666	2,424,604	2,478,268
Other revenues	37,308	41,296	48,871
Total Operating Revenues	2,197,947	2,465,900	2,527,139
Expenses			
Water operations	2,261,360	2,298,081	2,166,161
Total Operating Expenses	2,261,360	2,298,081	2,166,161
Net Operating (Loss) Income	(63,386)	167,819	360,978

	2017	2018	2019
Non-operating revenue (expenses), net	(191,062)	(173,373)	(165,197)
Loss Before Capital Contributions	(254,448)	(5,554)	195,781
Capital contributions	32,032	30,518	35,255
Change in Net Position	(222,416)	24,964	231,036
Net Position – Beginning of Year, as previously reported	5,341,918	5,119,502	4,934,662
Effect of Adoption of GASB 75	-	(209,804)	-
Net Position – End of Year	**5,119,502**	**4,934,662**	**5,165,698**

● Revenues

Water sold is the Water District's primary source of revenue. For the fiscal year of 2019 revenue from water sold was $2,444,536 an increase from $2,392, 330 in the 2018 year. This is an increase of $52,206, due to the addition of a large industrial customer. In 2018, Water sold increase by $264,384 to $2,392,330 compared to $2,127,946 in the 2017 year reflecting rate increases and higher customer demand.

Capital grants and contributions totaled $35,255 for fiscal year 2019. These funds were received from customers for tap on fees. This is an increase from $30,518 for the fiscal year of 2018. There was a decrease in the 2018 fiscal year from the $32,032 for the fiscal year of 2017.

Unrestricted investment earnings totaled $4,653 for the fiscal year 2018 and increased $10, 136 to $14,789 for the 2019 fiscal year. The unrestricted investment earnings increase from $4,653 in 2018 to $3,795 from 2018 was $858. The large increase represents the new interest rates received on investments and increased purchase of investments. The District earned its investment revenues by placing idle cash in Certificates of Deposits and Reserve Funds.

Debt service and facility reserve—the water treatment plant debt is paid off now and no further monthly payments will be collected from the City of Elkton.

Other operating revenues totaled $82,603 for the fiscal year 2019 which was an increase from the prior year. The 2018 total for Other Operating Revenue was $73,570 and 2017 was $70,028.This revenue is from late charges and other miscellaneous charges.

● Expenses

Operating expenses totaled $2,166,161 for the fiscal year 2019 which was a decrease from the 2018 amount of $2,298,081. There was an increase in 2018 from the 2017 amount of $2,261,360. These expenses relate directly to the everyday operations of the District such as payroll, transmission and distribution, and purchased water.

Interest expense totaled $179,986 for the 2019 fiscal year. This is an increase from $178,026 for fiscal year 2018. There was a decrease in 2018 from $194,857 for the 2017 fiscal year.

Change in net position for 2018 was $24,964 compared to $231,036 in 2019. The change in net position for 2017 was ($222,416).

• Capital Assets and Debt Administration

▸ Capital Assets

The District's investment in capital assets at December 31, 2019 amounts to $12,151,437 (net of accumulated depreciation) which was an increase of $1,398,011 compared to 2018. The District's investment in capital assets at December 31, 2018 amounted to $10,753,426 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, equipment and vehicles. This is an increase from $10,290,187 for the 2017 fiscal year.

Additional information on the District's capital assets can be found in Note 4 of the financial statements.

▸ Long-Term Debt

Long-term debt, net of current portion, totaled $5,809,843 at December 31, 2019, a decrease from $6,008,379 for the 2019 fiscal year. Long-term debt, net of current portion, totaled $6,008,379 at December 31, 2018, an increase from $5,875,269 for the 2017 fiscal year. Outstanding debt at year-end was to finance the District's infrastructure. The only activity for debt was the servicing requirements and borrowing for the expansion projects. In 2019, the net pension liability caused by GASB 68 totaled $877,935 which was an increase compared to $855,871 in 2018. In 2018, the net pension liability caused by GASB 68 totaled $855, 871 which was an increase compared to $799, 269 in 2017. In 2019, the net OPEB liability caused by GASB 75 totaled $209,908 which was a decrease compared to $249,508 in 2018. GASB 75 was implemented in 2018.

▸ Operation and Maintenance Budgetary Highlights

The District's O & M budget was increased by 3 percent over the prior year. Variances between the revenues that were budgeted and the actual amounts collected are not significant.

Any variances are not expected to have a significant effect on future services or liquidity of the District.

Also now having budgetary influence on the Water District are the effects of the adoption of GASB 68. These effects are noted beginning on page 27 “Employee Retirement Plan” thru page 32.

▶ Economic Factors and Next Year’s Budget and Rates

The District’s primary source of revenue is water sold to customers. This revenue will vary along with the number of customers the Water District has at any given time.

The costs of water and line loss are areas the District continually monitor as they have the most direct impact on the operations of the District.

During the current fiscal year, the Operation and Maintenance account balance decreased to $264,951. This is a change (decrease) from the 2018 balance of $369,496. This decrease is due to increase the purchases of investments. There was an increase in the 2018 fiscal year from $310,178 in the 2017 fiscal year.

• Requests for Information

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in the District’s finances. Questions concerning any of the information should be addressed to Todd County Water District, PO Box 520, Elkton, KY 42220.

Todd County Water District
A Component Unit of Todd County, Kentucky
Statements of Net Position

December 31,	**2019**	2018
Assets		
Current assets		
Cash	**$ 264,951**	$ 369,496
Short-term investments	**1,923,129**	1,271,721
Accounts receivable — billed	**214,385**	205,341
Accounts receivable — unbilled	**86,366**	71,170
Supplies	**65,022**	62,800
Prepaid expenses	**51,768**	23,639
Total current assets	**2,605,621**	2,004,167
Cash — restricted	**721,463**	647,950
Investments	**-**	90,000
Utility plant		
Utility plant in service	**21,493,269**	19,605,253
Less: accumulated depreciation	**(9,341,832)**	(8,851,827)
Net utility plant	**12,151,437**	10,753,426
Total assets	**15,478,521**	13,495,543
Deferred outflows of resources		
Deferred amount on debt refundings	**11,217**	12,038
Pension related	**176,969**	219,941
OPEB related	**74,937**	62,770
Total deferred outflows of resources	**263,123**	294,749

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

Statements of Net Position

December 31,	**2019**	2018
Liabilities		
Current liabilities		
Accounts payable	**122,114**	128,419
Accrued liabilities	**7,826**	2,095
Accrued interest payable	**312,777**	157,256
Short term notes payable	**3,949,785**	2,276,536
Current portion of notes payable	**181,000**	173,000
Total current liabilities	**4,573,502**	2,737,306
Long-term liabilities		
Long-term debt, net of current portion	**4,722,000**	4,903,000
Net pension liability	**877,935**	855,871
Net OPEB liability	**209,908**	249,508
Total long-term liabilities	**5,809,843**	6,008,379
Total liabilities	**10,383,345**	8,745,685
Deferred Inflows of Resources		
Pension related	**93,828**	62,589
OPEB related	**98,773**	47,356
Total deferred inflows of resources	**192,601**	109,945
Net Position		
Net investment in capital assets	**3,392,360**	3,486,474
Restricted	**473,824**	330,863
Unrestricted	**1,299,514**	1,117,325
Total net position	**$ 5,165,698**	$ 4,934,662

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

Todd County Water District
A Component Unit of Todd County, Kentucky
Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31,	**2019**	2018
Operating Revenues		
Water revenue	**$ 2,444,536**	$ 2,392,330
Late charges	**33,732**	32,274
Other	**48,871**	41,296
Total operating revenues	**2,527,139**	2,465,900
Operating Expenses		
Payroll	**322,660**	341,694
Retirement	**163,585**	212,664
Health insurance	**26,572**	26,352
Payroll taxes	**24,532**	25,334
Purchased water	**850,538**	900,212
Transmission and distribution	**80,035**	62,017
Contract services	**13,800**	20,073
Utilities	**16,176**	25,621
Telephone	**4,733**	3,238
Dues and subscriptions	**7,794**	5,422
Professional fees	**24,034**	22,363
Insurance	**30,213**	33,665
Commissioners' fees	**18,000**	18,000
Taxes and licenses	**4,591**	4,306
Office supplies and postage	**31,180**	36,111
Depreciation	**505,064**	511,153
Travel	**24,111**	23,345
Bad debts	**15,108**	19,469
Miscellaneous	**3,435**	7,042
Total operating expenses	**2,166,161**	2,298,081
Operating income	**360,978**	167,819

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

Years Ended December 31,	**2019**	2018
Non-Operating Revenues (Expenses)		
Interest income	**14,789**	4,653
Interest expense	**(179,986)**	(178,026)
Total non-operating expenses	**(165,197)**	(173,373)
Income (loss) before capital contributions	**195,781**	(5,554)
Capital contributions	**35,255**	30,518
Change in net position	**231,036**	24,964
Net position — beginning of year	**4,934,662**	5,119,502
Effect of adoption of GASB 75	**-**	(209,804)
Net position — end of year	**$ 5,165,698**	$ 4,934,662

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

Todd County Water District
A Component Unit of Todd County, Kentucky
Statements of Cash Flows

Years Ended December 31,	**2019**	2018
Cash Flows from Operating Activities		
Cash received from customers	**$ 2,502,899**	$ 2,463,317
Cash payments to suppliers for goods and services	**(1,070,527)**	(1,099,695)
Cash paid to employees	**(530,384)**	(596,983)
Net cash flows provided by operating activities	**901,988**	766,639
Cash Flows from Capital and Related Financing Activities		
Interest paid on debt	**(181,861)**	(186,402)
Purchase of capital assets	**(1,744,299)**	(909,333)
Proceeds from sale of capital assets	**4,255**	-
Proceeds from short-term debt	**1,673,249**	840,307
Principal payments on long-term debt	**(173,000)**	(165,500)
Capital contributions	**35,255**	30,518
Net cash flows used in capital and related financing activities	**(386,401)**	(390,410)
Cash Flows from Investing Actvities		
Interest income	**14,789**	4,653
Purchase of investments	**(561,408)**	(253,317)
Net cash flows used in investing activities	**(546,619)**	(248,664)
Net (decrease) increase in cash	**(31,032)**	127,565
Cash - beginning of year	**1,017,446**	889,881
Cash - end of year	**$ 986,414**	$ 1,017,446

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

Todd County Water District
A Component Unit of Todd County, Kentucky
Statements of Cash Flows

Years Ended December 31,		**2019**		2018
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	**$**	**360,978**	$	167,819
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense		**505,064**		511,153
Gain on sale of capital assets		**(4,814)**		-
Pension expense in excess of pension contributions		**96,275**		113,713
OPEB expense variance from contributions		**(350)**		24,290
Changes in assets and liabilities:				
Net (increase)/decrease in accounts receivable		**(24,240)**		(2,583)
Net increase in supplies		**(2,222)**		(827)
Net increase in prepayments		**(28,129)**		(1,644)
Net increase/(decrease) in accounts payable		**(6,305)**		(40,331)
Net increase/(decrease) in other current liabilities		**5,731**		(4,951)
Net cash provided by operating activities	**$**	**901,988**	$	766,639

Noncash activities from capital and related financing activities

▪ The District capitalized accrued interest as a component of construction in progress	**$**	**158,217**	$	65,059

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Todd County Water District (the "District") was chartered in 1971. It is a distributor of water under the authority of the Public Service Commission of Kentucky. The District provides service to customers in Todd County and a small area in Logan and Muhlenberg Counties.

Reporting Entity

The District is governed by a five-member board (the "Board"). The criteria for determining the District as a component unit of Todd County, Kentucky, the primary government, is financial accountability. As set forth in Section 2100, *Defining the Financial Reporting Entity,* of the Governmental Accounting Standards Board (GASB) Codification, a primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to impose its will on that organization. The majority of the Commissioners of the Board are appointed by the Todd County Judge Executive subject to the approval of the Todd County Fiscal Court. Todd County is able to impose its will on the District through the ability to remove appointed members of the Board at will and the ability to modify or approve the budget of the District.

Basis of Presentation

The records of the District are maintained on the accrual method of accounting. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position.

Operating revenues within the proprietary fund are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

Net position is classified into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

> *Net Investment in Capital Assets* — This component of net position consists of the District's total investment in capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of the net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

> *Restricted* — This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted assets will be reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

> *Unrestricted Net Position* — This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

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

Investments

Investments consist of non-brokered certificates of deposit and are recorded at cost. The cost of investments approximates their fair value. KRS 66.480 permits the District to invest in U.S. Treasury obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit and the Commonwealth of Kentucky investment pool.

Accounts Receivable

Billed receivables are stated at the amount billed to customers. Unbilled receivables are recorded for services provided for which customers have not been billed at December 31, 2019 and 2018. The District's operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 10th of each month. Accounts unpaid on the 25th of each month are considered delinquent and service is disconnected. The District provides no allowance for doubtful accounts due to the historical nature of the accounts receivable and the District's ability to disconnect service. Delinquent receivables are written off. New service is denied until all outstanding balances have been settled.

Supplies

Operating supplies is stated at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

Utility Plant

Expenditures for utility plant with an original cost of $500 or more are capitalized at cost, while maintenance and repairs are charged to operations when incurred. Depreciation is recorded on the straight-line method over the estimated useful life. Interest costs for utility plant asset construction are capitalized. Interest incurred on debt during a construction project is capitalized as a cost of the construction project.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long Term Debt

Debt is a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

Deferred Outflows of Resources – Pension Related

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of the financial statements. The deferred outflows of resources reported in this year’s financial statements include (1) deferred amount arising from the refunding of bonds, (2) a deferred outflow of resources for contributions made to the District's defined benefit pension plan between the measurement date of the net pension pension liabilities from the plan and the end of the District's fiscal year, (3) and deferred outflows of resources related to the differences between the expected and actual demographics for the cost sharing defined benefit plan. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred amounts related to the actuarial assumptions for demographic factors in the cost sharing pension plan will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.

Deferred Inflows of Resources – Pension Related

The District’s financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s). Deferred inflows of resources are reported in the District’s financial statement of net position for gains on refunding bond amounts and for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of 5 years, including the current year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. Deferred inflows of resources also include changes in the proportion and differences between employee contributions and the proportion share of contributions in the cost sharing plan and are amortized over the expected remaining service lives of the employees participating in the plan.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows and Outflows of Resources – OPEB Related

The District's statement of net position reports a separate section for deferred inflows and outflows of resources related to OPEB which includes only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on plan investments. Deferred outflows include resources for the District's contributions made subsequent to the measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Certified Employees Retirement System (CERS) and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The District proportionate share of pension amounts were further allocated to each participating employer based on the contributions paid by each employer. Pension investments are reported at fair value. Note 8 provides further detail on the net pension liability.

Net Other Post-Employment Benefits (OPEB) Liability

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Certified Employees Retirement System (CERS) and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The District's proportionate share of OPEB amounts were further allocated to each participating employer based on the contributions paid by each employer. OPEB investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

For defined benefit OPEB, GASB Statement No. 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The District implemented the new requirements of this Statement for the fiscal year ended December 31, 2018. The implementation of GASB Statement No. 75 resulted in a reduction of beginning net position by $209,804. Note 9 provides further detail on the net OPEB liability.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Post-Employment Health Care Benefits

Retired District employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS plan.

Income Taxes

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

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Subsequent Events

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through June 17, 2020, which was the date the financial statements were made available.

Recently Issued and Adopted Accounting Pronouncements

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The District has implemented the new requirements of this Statement for the year ended December 31, 2019.

Recent Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District is evaluating the requirements of this Statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District is evaluating the requirements of this Statement.

NOTE 2: CASH AND INVESTMENTS

Deposits

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2019 and 2018, respectively, the carrying amounts of the District's deposits were $2,909,543 and $2,379,167 and the bank balances were $2,917,346 and $2,381,733. Of the bank balances, $2,644,961 and $2,183,209 was covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name and $272,385 and $198,524 was uninsured and uncollateralized.

December 31,		**2019**		2018
Cash	**$**	**264,951**	$	369,496
Investments		**1,923,129**		1,361,721
Restricted cash		**721,463**		647,950
	$	**2,909,543**	$	2,379,167

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute for bank deposits to be collateralized. As of December 31, 2019 and 2018, $272,385 and $198,524 of the Districts bank balance was exposed to custodial credit risk.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has an investment policy that requires additional investments to be in the form of a certificate of deposit.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. At December 31, 2019 and 2018, there are no investments in any one issuer that represents 5% or more of the total investments.

NOTE 3: CASH – RESTRICTED

Restricted cash consists of the following at:

December 31,	**2019**	2018
Construction	**$ 83,957**	$ 74,900
Depreciation reserve	**389,867**	329,509
Debt service reserve	**247,639**	243,541
	$ 721,463	$ 647,950

NOTE 3: CASH – RESTRICTED (CONTINUED)

Certain bond agreements require the District to maintain replacement and debt sinking reserves. The construction amount is for the District's current construction project.

NOTE 4: UTILITY PLANT

Utility plant activity is as follows:

	Capital Cost			
December 31, 2019	**Beginning Balance**	**Additions**	**Retirements/ Reclassifications**	**Ending Balance**
Capital assets that are not depreciated:				
Land and land improvements	$ 98,632	$ 17,597	$ -	$ 116,229
Construction in progress	2,322,091	1,812,181	-	4,134,272
Total non-depreciable cost	2,420,723	1,829,778	-	4,250,501
Capital assets that are depreciated:				
Structures and Improvements	1,092,120	-	-	1,092,120
Distribution reservoirs and standpipes	3,233,074	-	-	3,233,074
Transmission and distribution mains	10,772,767	29,897	-	10,802,664
Meters and installations	1,786,223	40,617	-	1,826,840
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	217,520	1,736	(14,500)	204,756
Office equipment	67,551	488	-	68,039
Power operating equipment	2,500	-	-	2,500
Communication equipment	2,875	-	-	2,875
Total depreciable historical cost	17,184,530	72,738	(14,500)	17,242,768
Accumulated depreciation	(8,851,827)	(505,064)	15,059	(9,341,832)
	8,332,703	(432,326)	559	7,900,936
Utility plant, net	$ 10,753,426	$ 1,397,452	$ 559	$ 12,151,437

For the year ended December 31, 2019, the District capitalized $158,217 of interest cost relating to construction projects.

NOTE 4: UTILITY PLANT (CONTINUED)

	Capital Cost			
December 31, 2018	**Beginning Balance**	**Additions**	**Retirements/ Reclassifications**	**Ending Balance**
Capital assets that are not depreciated:				
Land and land improvements	$ 98,632	$ -	$ -	$ 98,632
Construction in progress	1,458,429	863,662	-	2,322,091
Total non-depreciable cost	1,557,061	863,662	-	2,420,723
Capital assets that are depreciated:				
Structures and Improvements	1,092,120	-	-	1,092,120
Distribution reservoirs and standpipes	3,233,074	-	-	3,233,074
Transmission and distribution mains	10,760,507	12,260	-	10,772,767
Meters and installations	1,718,362	67,861	-	1,786,223
Hydrants	9,900	-	-	9,900
Miscellaneous equipment	187,963	29,557	-	217,520
Office equipment	66,499	1,052	-	67,551
Power operating equipment	2,500	-	-	2,500
Communication equipment	2,875	-	-	2,875
Total depreciable historical cost	17,073,800	110,730	-	17,184,530
Accumulated depreciation	(8,340,674)	(511,153)	-	(8,851,827)
	8,733,126	(400,423)	-	8,332,703
Utility plant, net	$ 10,290,187	$ 463,239	$ -	$ 10,753,426

For the year ended December 31, 2018, the District capitalized $65,059 of interest cost relating to a construction project.

NOTE 5: SHORT-TERM DEBT

Short-term debt provides interim financing for capital construction activities. On August 4, 2017, the District entered into a loan agreement with the Kentucky Rural Water Finance Corporation (RD) to provide financing for a construction project. The agreement provides interim financing of up to $3,068,000, at an interest rate of 3.40%, to complete the construction project. Once the construction project is complete, the agreement further states the U.S. Department of Agriculture acting through RD will provide a permanent loan commitment up to $3,068,000 to retire the interim financing by the District by issuing revenue bond, Series 2017.

On May 28, 2019, the District entered into a loan agreement with the Kentucky Rural Water Finance Corporation (RD) to provide financing for a construction project. The agreement provides financing of up to $3,210,000, at an interest rate of 3.10%, to complete the construction project. Once the construction project is complete, the agreement further states the U.S. Department of Agriculture acting through RD will provide a permanent loan commitment up to $3,210,000 to retire the interim financing by the District by issuing revenue bond, Series 2019.

The following is a summary of changes in short-term debt as of December 31, 2019 and 2018:

December 31,	**2019**	2018
Balance, January 1	**$ 2,276,536**	$ -
Increases	**1,673,249**	2,276,536
Decreases	**-**	-
Balance, December 31	**$ 3,949,785**	$ 2,276,536

NOTE 6: LONG-TERM DEBT

Long-term debt consists of the following:

December 31,	**2019**	2018
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2045	**$ 919,000**	$ 938,000
Revenue bonds, payable in annual principal installments, plus interest at 4.125%, maturing in January 2048	**1,583,500**	1,611,500
Revenue bonds, payable in annual principal installments, plus interest at 3.00%, maturing in January 2050	**905,500**	921,500
Revenue bonds, payable in annual principal installments, plus interest at 2.875%, maturing in August 2033	**1,495,000**	1,605,000
	4,903,000	5,076,000
Less: current portion	**(181,000)**	(173,000)
	$ 4,722,000	$ 4,903,000

Maturities of long-term debt are as follows for the year ended December 31:

Year	**Principal**	**Interest**	**Total Debt Service**
2020	$ 181,000	$ 177,095	$ 358,095
2021	183,500	171,051	354,551
2022	190,500	164,921	355,421
2023	193,000	158,554	351,554
2024	201,000	152,080	353,080
2025-2029	1,051,500	654,626	1,706,126
2030-2034	804,000	480,933	1,284,933
2035-2039	638,000	350,794	988,794
2040-2044	777,500	213,043	990,543
2045-2049	595,000	66,475	661,475
2050-2051	88,000	6,660	94,660
	$ 4,903,000	$ 2,596,232	$ 7,499,232

NOTE 6: LONG-TERM DEBT (CONTINUED)

Activity in long-term debt is as follows:

December 31, 2019

	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	$ 5,076,000	$ -	$ 173,000	$ 4,903,000
	$ 5,076,000	$ -	$ 173,000	$ 4,903,000

December 31, 2018

	Beginning of Year	Increases	Decreases	End of Year
Revenue bonds	$ 5,241,500	$ -	$ 165,500	$ 5,076,000
	$ 5,241,500	$ -	$ 165,500	$ 5,076,000

The District has pledged future water customer revenues, net of specified operating expenses, to repay $4,903,000 in water system Revenue Bonds Series 2005,2008,2011,2012 and $3,949,785 of interim borrowings on Revenue Bonds Series 2017 and Series 2019. Proceeds from the borrowings provided financing for the construction of the utility plant. The bonds are payable solely from water customer net revenues and are payable through 2060. The total principal and interest remaining to be paid on the bonds is $11,672,293. Principal and interest paid for the current year and total customer net revenues were $352,986 and $2,527,139 respectively.

The District has various financial and non-financial debt covenants and restrictions as set forth in the bond and loan agreements. Failure to fulfill any of the debt covenants and restrictions, or failure to cure any such failure within 30 days, constitute an event of default. In the event of default, the respective owners of the bonds may enforce and compel the duties and obligations set forth within the bond agreement.

NOTE 7: WATER AGREEMENT

The District has entered into a water purchase contract with the Logan/Todd Regional Water Commission, whereas the contract requires the Commission to provide water to the District and the rates the District will be charged for the expected water usage are defined therein. The contract will extend for a term of 50 years beginning January 1, 2003. The agreement may be renewed or extended for such term or terms as may be agreed upon by the Commission and the District.

NOTE 7: WATER AGREEMENT (CONTINUED)

Under terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing water from the Commission in March 2003; therefore, the Commission is the sole provider of water to the District. The agreement does require the District to purchase minimum levels of water from the Commission. If minimum levels are not met, the Commission may charge the District for the shortages. At December 31, 2019 and 2018 minimum levels have been met.

NOTE 8: EMPLOYEES' RETIREMENT PLANS

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan Description

The District contributes to the Non-Hazardous CERS plan, a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the plan. CERS is administered by the Board of Trustees of the Kentucky Retirement System. CERS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, Cost of Living Adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011.

Tier 1 - Non-Hazardous Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Benefits Provided (Continued)

Tier 2 - Non-Hazardous Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute a total of 6% of their annual creditable compensation, while 1% of these contributions are deposited in an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420 Employees administrative duties). These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Tier 3 - Non-Hazardous Tier 3 plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund (401(h) account) which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Trustees based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Contributions

Employers participating in the CERS were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the KRS Board of Trustees on the basis of an annual valuation last preceding the July 1 of a new biennium. The KRS Board of Trustees may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board of Trustees. For the fiscal year ended June 30, 2019 and 2018, participating employers contributed 16.22% and 14.48%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the KRS Board of Trustees for the fiscal years June 30, 2019 and 2018 was 16.22% and 14.48%, respectively.

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

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

At December 31, 2019, and 2018 the District reported a liability of $877,935 and $855,871, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and June 30, 2017, respectively. The District's proportion of the net pension liability was based on the District's share of 2019 and 2018 contributions to the pension plan relative to the 2019 and 2018 contributions of all participating employers, actuarially determined. At June 30, 2019 and 2018 the District's proportion was 0.012483%. and 0.014053%, respectively.

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

For the years ended December 31, 2019 and 2018, the District recognized pension expense of $152,832 and $164,898, respectively. At December 31, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	**$ 22,416**	**$ 3,709**	$ 27,916	$ 12,528
Net difference between projected and actual investment earnings on pension plan investments	**16,853**	**31,006**	39,799	50,061
Change of assumptions	**88,857**	**-**	83,643	-
Changes in proportion and differences between employer contributions and proportionate share of contribution	**17,733**	**59,113**	42,957	-
District contributions subsequent to the measurement date	**31,110**	**-**	25,626	-
Total	**$ 176,969**	**$ 93,828**	$ 219,941	$ 62,589

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

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

The $31,110 and $25,626 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019 and 2018, respectively. As of December 31, 2019, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2020	$ 51,952
2021	39
2022	(963)
2023	1,003
Thereafter	-

2019 Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles. There have been no changes in plan provisions since June 30, 2018. The plan adopted new actuarial assumptions since June 30, 2018, which were used to determine the total pension liability as follows:

Inflation	2.30%
Salary Increases	3.30 % to 10.30 %, Varies by service for CERS non-hazardous
Investment Rate of Return	6.25%

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

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

2018 Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Salary Increases	3.05%
Investment Rate of Return	6.25%

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Long-Term Expected Rate of Return

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	**62.50%**	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special Credit/High Yield	15.00%	2.60%
Liquidity	**14.50%**	
Core Bonds	13.5%	1.35%
Cash	1.0%	0.20%
Diversifying Strategies	**23.00%**	
Real Estate	28.5%	4.85%
Opportunistic	15.0%	2.97%
Real Return	5.0%	4.10%
Total	100.0%	

2019 Discount Rate

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

NOTE 8: EMPLOYEES' RETIREMENT PLANS (CONTINUED)

2018 Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the KRS plan's CAFR.

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

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

2019:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	$ 1,098,048	$ 877,935	$ 694,473

2018:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	$ 1,077,452	$ 855,871	$ 670,224

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS plan's CAFR.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the County Employees Retirement System's (CERS) OPEB Plan

Plan Description

The District's employees are provided OPEB under the provisions of Kentucky Revised Statues, the Kentucky Retirement Systems (KRS) board administers the CERS Insurance Fund. The CERS Insurance Fund is a cost sharing, multiple employer defined benefit OPEB plan which provides group health insurance benefits for plan members that are all regular full-time members employed in non-hazardous duty positions of the District. OPEB may be extended to beneficiaries of the plan members under certain circumstances. The CERS Insurance Fund is included in a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

The CERS Insurance Fund provides hospital and medical benefits to eligible plan members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Premium payments are submitted to DEI. The KRS board contracts with Humana to provide health care benefits to the eligible Medicare retirees. The CERS Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Contributions

Employers participating in the CERS Insurance Fund contribute a percentage of each employee's creditable compensation. The actuarially determined rates set by the KRS board is a percentage of each employee's creditable compensation. For the years ended June 30, 2019 and 2018, the required contribution was 5.26% and 4.7%, respectively, of each employee's covered payroll. Contributions from the District to the CERS Insurance Fund for the years ended December 31, 2019 and 2018, were $15,938 and $16,593, respectively. The KRS board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS board. Employees qualifying as Tier 2 or Tier 3 of the CERS plan members contribute 1% of creditable compensation to an account created for the payment of health insurance benefits.

Implicit Subsidy

The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

At December 31, 2019 and 2018, the District reported a liability of $209,908 and $249,508, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and June 30, 2017. The District's proportion of the net OPEB liability was based on the District's share of 2019 and 2018 contributions to the OPEB plan relative to the 2019 and 2018 contributions as of all participating employers, respectively, actuarially determined. At June 30, 2019 and 2018, the District's proportion was 0.012480% and 0.014053%, respectively.

For the years ended December 31, 2019 and 2018, the District recognized OPEB expense of approximately $19,238 and $32,586.

At December 31, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	**$ -**	**$ 63,334**	$ -	$ 29,077
Net difference between projected and actual investment earnings on OPEB plan investments	**1,383**	**10,706**	-	17,186
Change of assumptions	**62,114**	**415**	49,830	576
Changes in proportion and differences between employer contriutions and proportionate share of contribution	**3,767**	**24,318**	4,643	517
District contributions subsequent to the measurement date	**7,673**	**-**	8,297	-
Total	**$ 74,937**	**$ 98,773**	$ 62,770	$ 47,356

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

For the years ended December 31, 2019 and 2018, $7,673 and $8,297, respectively, was reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:		
2020	$	(5,346)
2021		(5,346)
2022		(2,382)
2023		(8,052)
2024		(8,431)
Thereafter		(1,952)

2019 Actuarial Assumptions

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles. There have been no changes in plan provisions since June 30, 2018. The plan adopted new actuarial assumptions since June 30,2018, which were used to determine the total OPEB liability as follows:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
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.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

2019 Actuarial Assumptions (Continued)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

2018 Actuarial Assumptions

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions. There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
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 mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Long-Term Expected Rate of Return

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	**62.50%**	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special Credit/High Yield	15.00%	2.60%
Liquidity	**14.50%**	
Core Bonds	13.5%	1.35%
Cash	1.0%	0.20%
Diversifying Strategies	**23.00%**	
Real Estate	28.5%	4.85%
Opportunistic	15.0%	2.97%
Real Return	5.0%	4.10%
Total	100.0%	

2019 Discount Rate

The projection of cash flows used to determine the discount rate of 5.68% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

2018 Discount Rate

The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

2019 Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Discount Rate

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

	1% Decrease (4.68%)	Current Discount Rate (5.68%)	1% Increase (6.68%)
District's proportionate share of the collective net OPEB liability	$ 281,190	$ 209,908	$ 151,176

2018 Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.85%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
District's proportionate share of the collective net OPEB liability	$ 324,071	$ 249,508	$ 185,994

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

2019 Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1% Decrease	Current Healthcare Rate	1% Increase
District's proportionate share of the collective net OPEB liability	$ 156,110	$ 209,908	$ 275,145

2018 Sensitivity of the District's Proportionate Share of the collective net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1% Decrease	Current Healthcare Rate	1% Increase
District's proportionate share of the collective net OPEB liability	$ 185,761	$ 249,508	$ 324,647

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, unemployment insurance, errors and omissions, property and general liability coverage, the District participates in the Kentucky Association of Counties (KACo) insurance fund. This public entity risk pool operates as a common risk management and insurance program for political subdivisions in the State of Kentucky. The District, along with other participating entities, contributes annual premiums determined by KACo. The amount of the premium is based on actuarial evaluations, rating plans and other analyses of the amounts necessary for the payment of claims. If, in the opinion of KACo's Board, the assets of the Trust are insufficient to enable the Trust to discharge its legal liabilities and other obligations and to maintain required reserves, the Trust's Board may require certain participating members to contribute supplementary contributions. The District is not aware of any additional assessments payable to the Trust to cover claims. The District's claims are submitted to and paid by KACo. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years.

NOTE 11: COMMITMENTS

The Highway 181 Waterline Project consists of installing approximately 10,000 linear feet of new water line to extend our services on Clifty-Kirkmansville Rd and Homer Powell Rd, replacing approximately 57,000 linear feet of PVC with ductile iron on Greenville Rd/ Hwy 181N, and replacing meters for all active services in the District. The anticipated total cost of the project is $4,200,000. Funding will consist of approximately $3,068,000 from a Rural Development loan and $1,132,000 from a Rural Development Grant. Total cost incurred as of December 31, 2019 is $2,850,000.

The Novelis Project consists of installing approximately 11,000 linear feet of water line, a water tower, and metering station to provide water service to the Novelis plant located in Guthrie, KY. The anticipated total cost of the project is $3,600,000. Funding will consist of approximately $3,210,000 from a Rural Development loan and $390,000 from a Rural Development Grant. Total cost incurred as of December 31, 2019 is $1,320,000.

NOTE 12: SUBSEQUENT EVENTS

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the District. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

On March 16, 2020 the Kentucky Public Service Commission ordered all utilities under its jurisdiction to suspend, for at least 30 days and until further notice, all disconnections for non-payment, as well as late payment fees, in order to provide relief for customers during the coronavirus pandemic.

Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of the District's Contributions

County Employee Retirement System

Schedule of the District's Proportionate Share of the Net Pension Liability - CERS

As of December 31,	**2019**	2018	2017	2016	2015
District's proportion of the net pension liability	**0.124830%**	0.014053%	0.013655%	0.012075%	0.011961%
District's proportionate share of the net pension liability	**$ 877,935**	$ 855,871	$ 799,269	$ 594,539	$ 514,262
District's covered payroll	**$ 314,873**	$ 348,307	$ 332,266	$ 288,056	$ 279,064
District's proportionate share of the net pension liability as a percentage of its covered payroll	**278.82%**	245.72%	240.55%	206.40%	184.28%
Plan fiduciary net position as a percentage of the total pension liability	**50.45%**	53.54%	53.30%	55.50%	59.97%

Note: The amounts disclosed in the table above were determined as of June 30, which is the measurement date for the plan.

Schedule of District's Contribution - CERS

For the Year Ended December 31,	**2019**	2018	2017	2016	2015
Contractually required contribution	**$ 56,597**	$ 51,145	$ 48,505	$ 40,238	$ 36,211
Contributions in relation to the contractually required contribution	**56,597**	51,145	48,505	40,238	36,211
Contribution deficiency (excess)	**$ -**	$ -	$ -	$ -	$ -
District's covered payroll (1)	**$ 318,325**	$ 334,252	$ 341,178	$ 303,889	$ 286,477
Contributions as a percentage of covered payroll	**17.78%**	15.30%	14.22%	13.24%	12.64%

(1) The amount presented was determined as of the calendar year end that accrued within the fiscal year.

Changes of Benefit Terms

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2019: No changes in benefit terms.

2018: No changes in benefit terms.

2017: No changes in benefit terms.

2016: No changes in benefit terms.

2015: No changes in benefit terms.

Changes of Assumptions

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2019: There have been no changes in plan provisions since June 30, 2018. However, the Board of Trustees has adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The Total Pension liability as of June 30, 2019 is determined using these updated assumptions.

2018: During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

2017: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS. However, subsequent to the actual valuation date (June 30, 2016), but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total Pension Liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the non-hazardous system and the assumed rate of return is 6.25% for the non-hazardous system.

Changes of Assumptions (Continued)

2016: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS. However, subsequent to the actual valuation date (June 30, 2016), but prior to the measurement date (June 30, 2017), the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total Pension Liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the non-hazardous system and the assumed rate of return is 6.25% for the non-hazardous system.

2015: No changes in assumptions.

Todd County Water District
A Component Unit of Todd County, Kentucky
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability and Schedule of District's Contributions – County Employees Retirement System

Schedule of District's Proportionate Share of the Collective Net OPEB Liability - CERS

As of December 31,		**2019**		2018
District's proportion of the net OPEB liability		**0.012480%**		0.014053%
District's proportionate share of the net OPEB liability	**$**	**209,908**	$	249,508
District's covered - employee payroll	**$**	**314,873**	$	348,307
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		**66.66%**		71.63%
Plan fiduciary net position as a percentage of the total OPEB liability		**60.44%**		57.62%

Note: The amounts disclosed in the table above were determined as of June 30, which is the measurement date for the plan.

Schedule of District Contributions - CERS

For the year ended December 31,		**2019**		2018
Contractually required contribution	**$**	**15,938**	$	16,593
Contributions in relation to the contractually required contribution		**15,938**		16,593
Contribution deficiency (excess)	**$**	**-**	$	-
District's covered-employee payroll	**$**	**318,325**	$	334,252
Contributions as a percentage of covered-employee payroll		**5.01%**		4.96%

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

Changes of Benefit Terms

2019: No changes of benefit terms.

2018: No changes of benefit terms (other than the blended discount rate used to calculate the total OPEB liability).

Changes of Assumptions

2019: There have been no changes in plan provisions since June 30, 2018. However, the Board of Trustees has adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The Total OPEB liability as of June 30, 2019 is determined using these updated assumptions.

2018: During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018 is determined using the updated benefit provisions.

Todd County Water District
A Component Unit of Todd County, Kentucky
Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
Passed-Through Kentucky Rural Development:				
Water and Waste Disposal Systems for Rural Communities	10.760	-	-	$ 1,664,240
Total U.S. Department of Agriculture				1,664,240
Total Expenditures of Federal Awards	10.760			$ 1,664,240

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Todd County Water District (the “District”) under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3: SUBRECIPIENTS

There were no subrecipients during the fiscal year.

NOTE 4: LOANS AND LOAN GUARANTEES

The District did not have any loans or loan guarantee programs required to be reported on the schedule.

NOTE 5: INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

TCWD Todd County Water District
www.toddcountywater.com

2018-001 General Ledger

Criteria and Condition: During our audit procedures, we noted instances in which the general ledger was not being maintained appropriately, leading to several audit adjustments in the areas of cash, fixed assets, construction in progress, accounts payable, debt, revenue, and expenses. Per 2 CFR 200.510(b), management is responsible for preparation of the Schedule of Expenditures of Federal Awards, which was based on the general ledger and required adjustment.

Recommendation: We recommend current procedures be reviewed and that internal control procedures over monthly general ledger maintenance be strengthened, including monitoring and recording infrequent transactions to ensure the accuracy of the financial statements and the SEFA.

Current Status: Finding was corrected in 2019.

2018-002 Cash Deposits

Criteria and Condition: At December 31, 2018, we noted the District's bank balance contained $198,524 of cash deposits that were uncollateralized and uninsured. Kentucky Revised Statues require the District's bank balance to be fully insured and collateralized.

Recommendation: We recommend current procedures be reviewed and that internal control procedures are implemented, including monitoring cash and investment balances to ensure that they are properly collateralized and insured.

Current Status: Similar finding noted, see 2019-001.

P.O. Box 520
2201 New Highway 68 West
Elkton, KY 42220
Phone: 270-265-2229
Fax: 270-265-2035

Todd County Water District
www.toddcountywater.com

U.S DEPARTMENT OF AGRICULTURE
Passed-Through Kentucky Rural Development

2018-003 Water and Waste Disposal Systems for Rural Communities – CFDA 10.760
Grant period – Year ended December 31, 2018

Condition: During our audit procedures, we noted internal controls were not designed to ensure written policies relating to federal awards as required by 2 CFR 200, Subparts D & E of the Uniform Guidance were properly developed and implemented. The District did not have the required written policies in accordance with CFR 200.302(b)(6), CFR 200.302(b)(7), 200.319(c)(1), 200.319(c)(2), and CFR 200.319(c)(1).

Recommendation: The District should review internal controls over the federal programs relating to 2 CFR 200, Subparts D & E of the Uniform Guidance so written policies are established and compliance is maintained in the federal programs in accordance with CFR 200.302(b)(6), CFR 200.302(b)(7), 200.319(c)(1), 200.319(c)(2), and CFR 200.319(c)(1).

Current Status: Finding was corrected in the 2019.

P.O. Box 520
2201 New Highway 68 West
Elkton, KY 42220
Phone: 270-265-2229
Fax: 270-265-2035

CRI CARR RIGGS & INGRAM
CPAs and Advisors

Carr, Riggs & Ingram, LLC

922 State Street, Suite 100
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Independent Auditors' 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*

Commissioners
Todd County Water District
Elkton, 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 Todd County Water District (the "District"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 17, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify an deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

Todd County Water District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
June 17, 2020

Carr, Riggs & Ingram, LLC

922 State Street, Suite 100
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Independent Auditors' Report on Compliance
for Each Major Program and on Internal Control over
Compliance Required by the Uniform Guidance

Commissioners
Todd County Water District
Elkton, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Todd County Water District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2019. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal* Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC
Bowling Green, Kentucky
June 17, 2020

Section I — Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

Material weakness(es) identified?	☐ Yes	☑ No
Significant deficiency(ies) identified?	☑ Yes	☐ None reported
Noncompliance material to financial statements noted?	☑ Yes	☐ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	☐ Yes	☑ No
Significant deficiency(ies) identified?	☐ Yes	☑ None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance (2 CFR 200.516(a))?	☐ Yes	☑ None reported

Identification of major federal programs:

CFDA Numbers	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? ☑ Yes ☐ No

Section II — Financial Statement Findings

2019-001 Cash Deposits

Criteria and Condition: At December 31, 2019, we noted the District's bank balance contained $272,385 of cash deposits that were uncollateralized and uninsured. Kentucky Revised Statues require the District's bank balance to be fully insured and collateralized.

Cause: Internal controls were not in place to monitor cash deposits to determine that cash deposits at banks are properly collateralized and insured.

Effect: Cash deposits at banks could be at risk in excess of the amount that is collateralized and insured.

Repeat Finding: 2018-002

Recommendation: We recommend current procedures be reviewed and that internal control procedures are implemented, including monitoring cash and investment balances to ensure that they are properly collateralized and insured.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding, see corrective action plan.

Section III — Federal Award Findings and Questioned Costs

No findings to be reported.

Todd County Water District
www.toddcountywater.com

2019-001 Cash Deposits

Criteria and Condition: At December 31, 2019, we noted the District's bank balance contained $272,385 of cash deposits that were uncollateralized and uninsured. Kentucky Revised Statues require the District's bank balance to be fully insured and collateralized.

Cause: Internal controls were not in place to monitor cash deposits to determine that cash deposits at banks are properly collateralized and insured.

Effect: Cash deposits at banks could be at risk in excess of the amount that is collateralized and insured.

Repeat Finding: 2018-002

Recommendation: We recommend current procedures be reviewed and that internal control procedures are implemented, including monitoring cash and investment balances to ensure that they are properly collateralized and insured.

Views of Responsible Officials and Planned Corrective Actions:
Todd County Water District accepts the recommendation, will do additional training, and change the time of month bank pledges are reviewed.
Corrective action is anticipated to be completed by fiscal year end December 31, 2020 with oversight directed by Carla Moody, office manager.

P.O. Box 520
2201 New Highway 68 West
Elkton, KY 42220
Phone: 270-265-2229
Fax: 270-265-2035

THOUGHT LEADERSHIP

Join Our Conversation

WEBSITE (CRIcpa.com)

CRI's website features financial calculators, current tax and estate tax guides, a record retention schedule, glossary of common financial terms, and hundreds of articles with topics ranging from current legislation to industry-specific news.

BLOG SITE (blog.CRIcpa.com)

Featuring articles and videos, CRI's interactive blog site provides helpful tips for readers both personally and professionally. Written by our partners from their perspective and experiences, these plain English explanations of current regulations and trends exemplify our commitment to open dialogue.

CRInsights (CRIcpa.com)

We understand that just because a topic makes perfect sense to a CPA doesn't mean that it will to our clients. That's why we developed CRInsights, our in-depth yet down-to-earth explanations of complex topics.

NEWSLETTER (Sign up at CRIcpa.com)

Our team is dedicated to keeping our clients informed, and we prove it by creating a custom monthly e-newsletter with widely-applicable topics. The articles are designed to help you improve your business and personal finances. Popular recent topics include:

- Reportable Health Care Coverage on W-2s
- Navigating Alternative Minimum Tax (AMT)
- Key Considerations of Health Care Law
- Six Commandments of Estate Planning