

West Shelby Water District

Financial Statements

December 31, 2020 and 2019

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West Shelby Water District

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Independent Auditor's Report

To the Board of Directors
West Shelby Water District

Report on the Financial Statement

We have audited the accompanying financial statements of the business-type activities of West Shelby Water District ("the District"), as of and for the year ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of material misstatement.

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

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

Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects; the financial position of the business-type activities of the District as of December 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in conformity 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 8 and the Schedule of Net Pension Liability and Related Ratios Based on Participation in the County Employees' Retirement System of KRS, the Schedule of Contributions Based on Participation in the County Employees' Retirement System of the KRS, the Schedule of Net OPEB Liability and Related Ratios Based on Participation in the County Employees' Retirement System Insurance Fund of KRS, and the Schedule of Contributions Based on Participation in the County Employees' Retirement System Insurance Fund of the KRS on pages 30 and 33 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 assurance.

Other Information

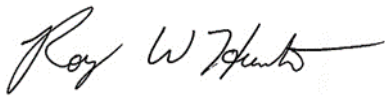
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues, Expenses, and Changes in Net Position - Actual to Budget on pages 34 and 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements, as a whole.

Independent Auditor's Report (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2021 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink that reads "Roy W. Hunter". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Roy W. Hunter, CPA PLLC
Lexington, Kentucky
March 12, 2021

**West Shelby Water District
Management's Discussion and Analysis (Unaudited)
December 31, 2020 and 2019**

As management of the West Shelby Water District ("District"), we offer the readers of the District's financial statements this narrative overview and analysis of the financial performance of the District for the year ended December 31, 2020. We encourage readers to read it in conjunction with the District's financial statements and the accompanying notes.

Financial Highlights

- Cash and cash equivalents increased \$101,511 (8%)
- Short term investments increased \$207,521 (100%)
- Restricted cash increased \$163,500 (20%)
- Accounts receivable decreased \$18,811 (16%)
- Inventory increased \$14,136 (14%)
- Property, plant and equipment (net) decreased by \$239,675 (2%)
- Accounts payable increased \$2,671 (48%)
- Accrued interest decreased \$1,182 (7%)
- Bonds/notes payable decreased \$54,000 (7%)
- Net position decreased \$142,423 (1%) 2088598
- Total revenues decreased \$55,723 (3%)
- Total expenses increased \$13,002 (1%)
- Operating loss increased \$68,745 (20%)
- Non-operating expenses (net) increased \$11,752 (285%)

Overview of the Financial Statements

This financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the accompanying notes to the financial statements. The West Shelby Water District is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the District. These statements are presented in a manner similar to those of a private business.

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

The statement of cash flows provides relevant information about the cash receipts and cash payments of the District during the fiscal year. The statement should help users assess the District's ability to generate future net cash flows, meet future obligations as they become due, and assess the District's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and non-cash investing, capital, non-capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 14-29.

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2020 and 2019**

Financial Analysis of the District

**Condensed Financial Information
Statements of Net Position
As of December 31, 2020 and 2019**

	<u>2020</u>	Percentage Increase (Decrease)	<u>2019</u>
Current Assets	\$ 1,853,782	19.68%	\$ 1,548,959
Non-current Assets	<u>10,541,649</u>	-3.66%	<u>10,942,624</u>
Total Assets	12,395,431	-0.77%	12,491,583
Deferred Out Flows of Resources	<u>209,123</u>	1.63%	<u>205,773</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 12,604,554</u>		<u>\$ 12,697,356</u>
Current Liabilities	\$ 243,529	8.13%	\$ 225,214
Non-current Liabilities	<u>1,554,672</u>	3.72%	<u>1,498,852</u>
Total Liabilities	1,798,201	4.30%	1,724,066
Deferred In Flows of Resources	<u>57,293</u>	-29.97%	<u>81,807</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 1,855,494</u>		<u>\$ 1,805,873</u>
Restricted	950,793	20.77%	787,293
Net Investment in Capital Assets	8,781,921		8,964,483
Unrestricted	<u>1,016,346</u>	-10.82%	<u>1,139,707</u>
Total Net Position	<u>\$ 10,749,060</u>	-1.31%	<u>\$ 10,891,483</u>

Current assets consist primarily of operating cash, cash equivalents, short term investments, prepaid expenses, accounts receivables, and inventory.

Non-current assets consist primarily of long-term bonds, property, plant and equipment and cash balances restricted for capital construction and debt service.

Current liabilities consist primarily of accounts payable, customer deposits, accrued payroll liabilities and the current portion of notes payables.

Non-current liabilities represent the non-current portion of bond and notes payables, net pension liability, and net other postemployment benefits liability.

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2020 and 2019**

Financial Analysis of the District (Continued)

**Condensed Financial Information
Statements of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended December 31, 2020 and 2019**

	<u>2020</u>	Percentage Increase (Decrease)	<u>2019</u>
Operating Revenues			
Sale of water	\$ 1,658,769	-2.53%	\$ 1,701,768
Other revenues	<u>16,531</u>	-43.49%	<u>29,255</u>
Total Operating Revenues	1,675,300	-3.22%	1,731,023
Operating Expenses			
Operating	1,032,224	-0.19%	1,034,138
General and administrative	495,663	2.28%	484,625
Depreciation	<u>560,711</u>	0.70%	<u>556,813</u>
Total Operating Expenses	<u>2,088,598</u>	0.63%	<u>2,075,576</u>
Loss from Operations	(413,298)	-19.95%	(344,553)
Non-operating Revenues (Expenses)			
Net (decrease) increase in fair value of investments	(806)	-127.64%	2,916
Investment income	16,711	-43.62%	29,638
Interest expense	<u>(31,780)</u>	-13.35%	<u>(36,677)</u>
Non-operating (Expenses), net	<u>(15,875)</u>	-285.04%	<u>(4,123)</u>
Expenses Over Revenues	(429,173)	-23.09%	(348,676)
Changes in Equity Contribution			
Member tap on	105,350	157.89%	40,850
Member construction contribution	<u>181,400</u>	-55.09%	<u>403,883</u>
Total	<u>286,750</u>	-35.52%	<u>444,733</u>
Change in Net Position	<u>\$ (142,423)</u>	-248.27%	<u>\$ 96,057</u>
Net Position, Beginning of Year	<u>\$ 10,891,483</u>	0.89%	<u>\$ 10,795,426</u>
Net Position, End of Year	<u>\$ 10,749,060</u>	-1.31%	<u>\$ 10,891,483</u>

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2020 and 2019**

Financial Analysis of the District (Continued)

Sale of Water represents revenues from providing water to residential, commercial, industrial, governmental, and multi-family customers.

Other income represents revenues for reconnect fees, forfeited discounts (late fees), and interest earned.

Operating expenses primarily represent the purchasing of water, personnel costs for maintenance staff, utilities, and repairs and maintenance.

General and administrative expenses primarily represent personnel costs for administrative staff, employee benefits, insurance, supplies and payroll taxes.

Depreciation expense is related to the allocation of the usefulness of property, plant and equipment over the lifetime of the asset.

Non-operating revenues (expenses) consist primarily of net change in fair value of investments, investment income, gain on sale of property, plant and equipment and interest expense.

Condensed Financial Information

Statements of Cash Flows

For the Fiscal Year Ended December 31, 2020 and 2019

	<u>2020</u>	Percentage Increase (Decrease)	<u>2019</u>
Net Cash Provided By (Used In):			
Operating activities	\$ 255,005	-3.22%	\$ 263,502
Capital and related financing activities	(123,178)	-103.01%	(60,676)
Investing activities	<u>(30,316)</u>	-86.66%	<u>(227,257)</u>
Net Change in Cash and Cash Equivalents	101,511	515.50%	(24,431)
Cash and Cash Equivalents, Beginning of Year	<u>1,314,000</u>	-1.83%	<u>1,338,431</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,415,511</u>	7.73%	<u>\$ 1,314,000</u>

The net increase in cash and cash equivalents totaled \$101,511 at December 31, 2020, primarily due to monies received for member tap on and construction contribution.

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2020 and 2019**

Capital Assets Administration

The following table summarizes the changes in net capital assets between fiscal years 2020 and 2019.

	<u>2020</u>	Percentage Increase (Decrease)	<u>2019</u>
Transmission and distribution plant	\$ 15,173,635	1.98%	\$ 14,879,490
General plant	1,394,868	1.97%	1,367,978
Accumulated depreciation	<u>(7,068,275)</u>	-8.62%	<u>(6,507,565)</u>
	<u>\$ 9,500,228</u>	-2.46%	<u>\$ 9,739,903</u>

Debt Administration

The following table summarizes the outstanding obligations under bonds payable as December 31, 2020 and 2019.

	<u>2020</u>	Percentage Increase (Decrease)	<u>2018</u>
Bonds and Note payable	<u>\$ 708,000</u>	-7.09%	<u>\$ 762,000</u>
	<u>\$ 708,000</u>	-7.09%	<u>\$ 762,000</u>

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all of those with an interest. If you have any questions concerning the information provided in this report or need additional financial information, contact the West Shelby Water District, 137 Citizen's Blvd, Simpsonville, Kentucky 40067.

West Shelby Water District
Statements of Net Position
For the Fiscal Year Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,415,511	\$ 1,314,000
Short term investments	207,521	-
Accounts receivable	101,769	120,580
Inventory - materials and supplies	114,157	100,021
Prepaid expenses and other	<u>14,824</u>	<u>14,358</u>
Total Current Assets	1,853,782	1,548,959
Non-current Assets		
Restricted cash and cash equivalents	989,999	826,499
Long term investments	51,422	376,222
Property, plant and equipment net of accumulated depreciation	<u>9,500,228</u>	<u>9,739,903</u>
Total Non-current Assets	<u>10,541,649</u>	<u>10,942,624</u>
Total Assets	12,395,431	12,491,583
Deferred Outflows of Resources		
Deferred outflow - OPEB	105,057	68,285
Deferred outflow - pension	<u>104,066</u>	<u>137,488</u>
Total Deferred Outflows of Resources	<u>209,123</u>	<u>205,773</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 12,604,554</u></u>	<u><u>\$ 12,697,356</u></u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 8,251	\$ 5,580
Accrued interest	15,040	16,222
Customer deposits	103,695	91,504
Accrued taxes and payroll liabilities	18,336	18,702
Horizon Group escrow	39,207	39,206
Bonds payable, current portion	<u>59,000</u>	<u>54,000</u>
Total Current Liabilities	243,529	225,214
Non-current Liabilities		
Bonds payable, long-term portion	649,000	708,000
Premium on bonds payable	10,307	13,420
Net OPEB liability	214,353	150,014
Net pension liability	<u>681,012</u>	<u>627,418</u>
Total Non-current Liabilities	<u>1,554,672</u>	<u>1,498,852</u>
Total Liabilities	1,798,201	1,724,066
Deferred Inflows of Resources		
Deferred inflows - OPEB	43,054	55,096
Deferred inflows - pension	<u>14,239</u>	<u>26,711</u>
Total Deferred Inflows of Resources	<u>57,293</u>	<u>81,807</u>
Total Liabilities and Deferred Inflows of Resources	1,855,494	1,805,873
Net Position		
Restricted for capital construction and debt payments	950,792	787,293
Net investment in capital assets	8,781,921	8,964,483
Unrestricted net position	<u>1,016,347</u>	<u>1,139,707</u>
Total Net Position	<u>10,749,060</u>	<u>10,891,483</u>
Total Liabilities and Net Position	<u><u>\$ 12,604,554</u></u>	<u><u>\$ 12,697,356</u></u>

See accompanying notes.

West Shelby Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue from Sale of Water		
Residential customers	\$ 866,972	\$ 817,783
Industrial customers	358,399	430,390
Commercial customers	201,996	205,110
Multi-family dwellings	109,277	103,899
Private fire protection	81,947	79,779
Public authorities	37,207	61,660
Tax-exempt non-government	2,971	3,147
Total Revenue from Sale of Water	<u>1,658,769</u>	<u>1,701,768</u>
Other Revenue		
Miscellaneous revenue	14,041	12,150
Forfeited discounts	2,490	17,105
Total Other Revenues	<u>16,531</u>	<u>29,255</u>
Total Revenues	<u>1,675,300</u>	<u>1,731,023</u>
Operating Expenses		
Water purchased	741,625	740,311
Salaries	191,782	195,508
Maintenance materials and supplies	70,681	64,490
Operating supplies and expenses	16,500	10,486
Power-pumping equipment	11,636	23,343
Total Operating Expenses	<u>1,032,224</u>	<u>1,034,138</u>
Administrative and General		
Employee retirement	134,231	142,930
Employee insurance	98,745	92,079
Salaries	54,004	51,823
Insurance	28,728	28,123
Legal and accounting	28,200	24,024
Retirement health insurance	24,304	11,131
Office supplies	24,298	19,069
Payroll taxes	18,365	17,569
Commissioners fees	18,000	18,000
Utilities	16,840	16,207
Truck and equipment expenses	16,416	21,002
Computer/copier support	14,227	18,347
Miscellaneous	7,942	9,671
Employee training	4,645	3,297
Rent	3,454	3,853
Employee uniforms	3,264	5,968
Interest on customer deposits	-	1,248
Travel	-	284
Total Administrative and General	<u>495,663</u>	<u>484,625</u>

See accompanying notes

West Shelby Water District
Statements of Revenues, Expenses and Changes in Net Position (Continued)
For the Fiscal Year Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Other Operating Deductions		
Depreciation	\$ 560,711	\$ 556,813
Total Expenses	<u>2,088,598</u>	<u>2,075,576</u>
Total Operating Loss	(413,298)	(344,553)
Non-operating Revenues (Expenses)		
Net (decrease) increase in fair value of investments	(806)	2,916
Investment income	16,711	29,638
Interest on long-term debt	<u>(31,780)</u>	<u>(36,677)</u>
Total Non-operating (Expenses) Revenues, net	<u>(15,875)</u>	<u>(4,123)</u>
Expenses Over Revenues	(429,173)	(348,676)
Changes in Equity Contribution		
Member tap on	105,350	40,850
Member construction contribution	<u>181,400</u>	<u>403,883</u>
Total Changes in Equity Contribution	<u>286,750</u>	<u>444,733</u>
Change in Net Position	(142,423)	96,057
Total Net Position, Beginning of Year	<u>10,891,483</u>	<u>10,795,426</u>
Total Net Position, End of Year	<u>\$ 10,749,060</u>	<u>\$ 10,891,483</u>

See accompanying notes.

West Shelby Water District
Statements of Cash Flows
For the Fiscal Year Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,706,302	\$ 1,729,345
Cash payments to suppliers for goods and services	(974,677)	(988,396)
Cash payments for employee salaries and benefits	<u>(476,620)</u>	<u>(477,447)</u>
Net Cash Provided by Operating Activities	255,005	263,502
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(321,035)	(412,619)
Proceeds from sale of assets	-	-
Principal payments on bonds and notes payable	(54,000)	(53,000)
Member construction contributions	181,400	403,883
Member tap fees	105,350	40,850
Interest payments on long-term debt	<u>(34,893)</u>	<u>(39,790)</u>
Net Cash Used in Capital and Related Financing Activities	(123,178)	(60,676)
Cash Flows from Investing Activities		
Interest received	16,711	29,638
Change in long term investments	323,994	(5,360)
Change in short term investments	(207,521)	-
Change in restricted cash and cash equivalents	<u>(163,500)</u>	<u>(251,535)</u>
Net Cash Used in Investing Activities	<u>(30,316)</u>	<u>(227,257)</u>
Net Increase (Decrease) in Cash & Cash Equivalents	101,511	(24,431)
Cash and Cash Equivalents, Beginning of Year	<u>1,314,000</u>	<u>1,338,431</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,415,511</u></u>	<u><u>\$ 1,314,000</u></u>

See accompanying notes

West Shelby Water District
Statements of Cash Flows (Continued)
For the Fiscal Year Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Loss	\$ (413,298)	\$ (344,553)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	560,711	543,663
Change in retirement expense due to GASB 68	74,544	61,350
Change in retirement expense due to GASB 75	15,525	9,137
Accounts receivable	18,811	(1,152)
Inventories	(14,136)	3,406
Prepaid expenses and other	(466)	(2,322)
Accounts payable	2,671	18,315
Accrued interest	(1,182)	-
Accrued taxes and payroll liabilities	(366)	(5,522)
Customer deposits	<u>12,191</u>	<u>(17,374)</u>
Net Cash Provided by Operating Activities	<u>\$ 255,005</u>	<u>\$ 264,948</u>
Schedule of Non-cash Financing Activity		
Amortization of bond premium	<u>\$ 3,113</u>	<u>\$ 3,113</u>
Net (decrease) increase in the fair value of investments	<u>\$ (806)</u>	<u>\$ 2,916</u>

See accompanying notes.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note A - Nature of Organization and Operations

The District was established by order of the Shelby County Fiscal Court on March 10, 1964. The District was established to develop and operate a complete water supply and distribution system, which services parts of Shelby County.

Note B - Summary of Significant Accounting Policies

1. Basis of Presentation: The accompanying financial statements have been prepared as an enterprise fund. Enterprise funds are designed to accumulate the total cost of providing a particular service and to indicate the extent user charges are sufficient to cover these costs. Customer meters are read and billed monthly at which time the receivable is recorded and revenue is recognized. No provision has been made for doubtful accounts due to the amount determined to be uncollectible being negligible. The West Shelby Water District (the District) uses the accrual basis of accounting for financial accounting and reporting purposes.
2. Use of 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.
3. Statement of Cash Flows: For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.
4. Inventory: Inventories are stated at the lower of cost or market based on first-in first-out method.
5. Accounts Receivable: Accounts receivable are for water sales to customers. The District bills its receivables on or about the 25th of each month and are due by the 10th of the following month. Customers that do not pay by the due date are assessed a 10% penalty and receive a past due notice. Management provides for probable uncollectible amounts of accounts receivable through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts if necessary. As of December 31, 2020 and 2019, there is no allowance for doubtful accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.
6. Property, Plant and Equipment: Property, plant and equipment are capitalized and recorded at cost. The District has adopted a formal capitalization policy. The capitalization threshold for building and land improvements is \$2,000; the capitalization threshold is \$2,500 for all other categories of plant and equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following is a summary of the estimated useful lives used in computing depreciation:

Buildings and improvements	5 - 50 years
Machinery, equipment and leasehold improvements	5 - 25 years
Furniture and fixtures	5 - 25 years

Depreciation expense for the years ended December 31, 2020 and 2019 was \$560,711 and \$556,813, respectively.

7. Customer Deposits: Interest is accrued at a rate no greater than the District receives on cash investments and at no time greater than 6% annually.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note B - Summary of Significant Accounting Policies (Continued)

8. New Customers: New service connection fees and construction contributions are recorded as an addition to equity. The cost of installation of the new service is recorded as an addition to plant assets and is subject to depreciation.
9. Accumulated Vacation and Sick Leave: On January 13, 1995 the Commissioners adopted a formal policy related to vacation and sick leave. The policy was updated on February 1, 2020. Vacation is earned at rates varying from one to ten days per year depending on length of service. Sick leave accrues at the rate of 1/2 day for every month employed or six days per year and shall accumulate to a maximum of 90 days. After one year of service, employees are given one week of vacation, after two years of service, employees are given two weeks of vacation, after ten years of service, employees are given three weeks of vacation, and after twenty years of service, employee are given four weeks of vacation. No accrual is necessary as a limited number of personnel are employed, and the amount of the accrual would be immaterial. If an employee leaves employment, willfully or is terminated, with West Shelby Water District, unused vacation time has no monetary value and will not be paid.
10. Retirement System: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the District's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2020.
11. Postemployment Benefits Other Than Pensions (OPEB): For the purpose of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognize benefit payments when due and payable in accordance with the benefit terms. The liability was measured at June 30, 2020.
12. Government Accounting Standards Board (GASB): GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements, was issued in April 2019. The provisions of this Statement are effective for periods beginning after June 15, 2019. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows.
13. Subsequent Events: Subsequent events for the District have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

Note C - Concentration of Credit Risk

At December 31, 2020 and 2019 the carrying amount of the District's cash and cash investments were \$2,664,453 and \$2,516,721 respectively. All cash investments and bank balances were fully collateralized by federal depository insurance up to \$250,000 and other securities pledged by the financial institutions.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note D - Investments

The District reports investments utilizing a fair value hierarchy that prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three broad levels described as follows:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
December 31, 2020				
Certificate of Deposits	\$ 182,729	\$ -	\$ -	\$ 182,729
Bonds	-	76,214	-	76,214
	<u>\$ 182,729</u>	<u>\$ 76,214</u>	<u>\$ -</u>	<u>\$ 258,943</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
December 31, 2019				
Certificate of Deposits	\$ 222,554	\$ -	\$ -	\$ 222,554
Bonds	-	153,668	-	153,668
	<u>\$ 222,554</u>	<u>\$ 153,668</u>	<u>\$ -</u>	<u>\$ 376,222</u>

Investments securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the values of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position and statement of activities. During the year ended December 31, 2020, the bonds had an unrealized loss of \$806. This unrealized loss was recorded as a net decrease in the fair values of investments on the Statement of Revenues, Expenses and Change in Net Position.

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019**

Note E - Restricted Cash and Cash Equivalents

	<u>2020</u>	<u>2019</u>
Depreciation fund	\$ 561,283	\$ 233,776
Sinking fund	207,236	352,643
Horizon Group rebate fund	39,207	39,207
Construction fund	<u>182,273</u>	<u>200,873</u>
	<u>\$ 989,999</u>	<u>\$ 826,499</u>

Restricted cash and cash equivalents include the construction fund account, Horizon Group rebate fund and two debt service reserve funds (depreciation and sinking).

The construction fund is being used for current and future construction projects. Customer contributions and unexpended bond proceeds are carried in this fund. The sinking fund account is a debt reserve fund for the notes and bond payable. The depreciation fund is used to replace property, plant, and equipment. The Horizon Group rebate fund is used to reimburse the Horizon Group as more businesses tap-on to water meters that the Horizon Group purchased during the construction of the outlet mall.

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019**

Note F - Property, Plant and Equipment

Property, plant and equipment consist of the following components:

	Balance 2019	Additions	Deletions	Balance 2020
Business - Type Activities				
Transmission and Distribution Plant				
Land and land right	\$ 227,248	-	\$ -	\$ 227,248
Pumping equipment	1,951,740	-	-	1,951,740
Water treatment equipment	7,548	-	-	7,548
Standpipes	2,616,205	-	-	2,616,205
Transmission and distribution mains	8,855,134	200,000	-	9,055,134
Services and meters	848,307	94,145	-	942,452
Hydrants	353,421	-	-	353,421
Other plant equipment	19,887	-	-	19,887
Total	14,879,490	294,145	-	15,173,635
Less: Accumulated Depreciation	(6,105,250)	(523,469)	-	(6,628,719)
Total Transmission and Distribution Plant	8,774,240	(229,324)	-	8,544,916
General Plant				
Office furniture and equipment	115,144	-	-	115,144
Buildings	953,069	26,890	-	979,959
Transportation equipment	175,959	-	-	175,959
Tools, shop and garage equipment	106,627	-	-	106,627
Laboratory equipment	373	-	-	373
Communication equipment	16,806	-	-	16,806
Total	1,367,978	26,890	-	1,394,868
Less: Accumulated Depreciation	(402,315)	(37,241)	-	(439,556)
Total General Plant	965,663	(10,351)	-	955,312
Capital Assets, net	<u>\$ 9,739,903</u>	<u>(239,675)</u>	<u>\$ -</u>	<u>\$ 9,500,228</u>

Note G - Retirement Plan

General Information about the Pension Plan

Plan description. Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019**

Note G - Retirement Plan (Continued)

General Information about the Pension Plan

Benefits provided. KRS Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute, there are currently three benefit Tiers. Tier 1 members are those participating in the plan before September 1, 2008, Tier 2 are those that began participation September 1, 2008 through December 31, 2013 and Tier 3 are those members that began participation on or after January 1, 2014.

Tier 1 Non-Hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service-related disability benefits are provided after five years of service. Tier 2 Non-Hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 Non-Hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

The Kentucky General Assembly has the authority to increase, suspend or reduce Cost of Living Adjustments. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. Employees that entered the plan after September 1, 2008, are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended December 31, 2020, employer contributions for the District were \$59,687 (\$47,879 pension and \$11,808 insurance) based on a rate of 24.06% (19.30% pension and 4.76% insurance) (January 2020-June 2020) and 24.06% (19.30% pension and 4.76% insurance) (July 2020-December 2020) of covered payroll. By law, employer contributions are required to be paid. The KRS may intercept the District's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019**

Note G - Retirement Plan (Continued)

Net Pension Liability

Actuarial assumptions. The total pension liability as of June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Salary increases	3.30 to 11.55%, varies by service
Investment rate of return	6.25%

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2019, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

House Bill 1 passed during the 2020 Special Legislative Session allows certain employers in the KERS Nonhazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer's election was unknown at the time of the valuation, and the legislation was enacted after the June 30, 2020 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. There were no other plan provision changes.

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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 is summarized in the table below.

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Growth		
US Equity	4.50%	18.75%
Non-US Equity	5.25%	18.75%
Private Equity	6.65%	10.00%
Specialty Credit/High Yield	3.90%	15.00%
Liquidity		
Core Bonds	-0.25%	13.50%
Cash	-0.75%	1.00%
Diversifying Strategies		
Real Estate	5.30%	5.00%
Opportunistic	2.25%	3.00%
Real Return	3.95%	15.00%
	3.96%	100.00%

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note G - Retirement Plan (Continued)

Net Pension Liability (Continued)

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 return for each major class are summarized in the Kentucky Retirement Systems' Comprehensive Annual Financial Report (CAFR).

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

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
West Shelby Water District's Net pension liability	\$ 839,836	\$ 681,012	\$ 549,500

Pension expense. For the year ended June 30, 2020, the District recognized pension expense of \$134,231.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability experience	\$ 16,982	\$ -
Assumption changes	26,592	-
Investment experience	29,520	12,478
Change in proportionate share	7,137	1,761
Contributions subsequent to the measurement date of June 30, 2020	<u>23,835</u>	<u>-</u>
Total	<u>\$ 104,066</u>	<u>\$ 14,239</u>

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019**

Note G - Retirement Plan (Continued)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The amount shown below for "Contributions subsequent to the measurement date of June 30, 2020," will be recognized as a reduction to net pension liability in the following measurement period.

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

Recognition of Deferred Outflows (Inflows) of Resources for Future Plan Years

<u>Plan Year Ending June 30,</u>	<u>Recognition of Deferred Outflows (Inflows) of Resources</u>
2021	\$ 33,499
2022	17,447
2023	8,202
2024	6,844
	<u>\$ 65,992</u>

In the table shown above, deferred inflows of resources amounts will decrease pension expense while deferred outflows of resources amounts will increase pension expense.

Payable to the Pension Plan

At June 30, 2020, the District reported a payable of \$6,979 for the outstanding amount of contributions payable to the pension plan at June 30, 2020.

Note H – Postemployment Benefits Other Than Pensions

Plan description. Employees of the District are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit other postemployment benefits (OPEB) plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

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

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019**

Note H – Postemployment Benefits Other Than Pensions (Continued)

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District’s contractually required contribution rate for the period of January 2020 through June 2020 was 4.76% of covered payroll and the contribution rate for the period July 2020 through December 2020 was 4.76%. Contributions to the Insurance Fund from the District were \$14,075 for the year ended June 30, 2020. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable, compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

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

At December 31, 2020, the District reported a liability of \$214,353 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District’s proportion of the collective net OPEB liability and OPEB expense was determined using the employers’ actual contributions for the plan fiscal year 2020 (July 1, 2019 through June 30, 2020). This method is expected to be reflective of the employers’ long-term contribution effort. At June 30, 2020, the District’s proportion was 0.008877%.

For the year ended December 31, 2020, the District recognized OPEB expense of \$10,826. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability experience	\$ 35,814	\$ 35,842
Assumption changes	37,285	227
Investment experience	11,498	4,374
Change in proportionate share	9,321	2,611
Contributions subsequent to the measurement date of June 30, 2020, including implicit subsidy	<u>11,139</u>	<u>-</u>
Total	<u>\$ 105,057</u>	<u>\$ 43,054</u>

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019
Note H – Postemployment Benefits Other Than Pensions (Continued)**

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$11,139 resulting from the District’s contribution subsequent to the measurement date and before the end of the fiscal year and \$5,261 of implicit subsidy, will be included as a reduction of the collective net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District’s OPEB expense as follows:

Recognition of Deferred Outflows (Inflows) of Resources for Future Plan Years

<u>Plan Year Ending June 30,</u>	<u>Recognition of Deferred Outflows (Inflows) of Resources</u>
2021	\$ 13,910
2022	16,019
2023	11,974
2024	9,565
2025	<u>(604)</u>
	<u>\$ 50,864</u>

Actuarial assumptions. The total pension liability as of June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Salary increases	3.30 to 11.55%, varies by service
Investment rate of return	6.25%

Healthcare cost tend rates Pre-65: Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

Healthcare cost tend Post - 65: Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

Mortality rates were based on the following:

Pre-retirement: PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Post-retirement (non-disabled): System-specific mortality table based on mortality experience from 2013-2019, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

Post-retirement (disabled): 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.

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019
Note H – Postemployment Benefits Other Than Pensions (Continued)**

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

For financial reporting the actuarial valuation as of June 30, 2020, was performed Gabriel Roeder smith (GRS). The total liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan’s fiscal year ending June 30, 2020, using generally accepted actuarial principles. There have been no changes in plan provisions since June 30, 2019. However, the Board of Trustees has adopted new actuarial assumptions since June 30, 2019. These assumptions are documented in the report titled “Kentucky Retirement Systems 2019 Actuarial Experience Study for the Period Ending June 30, 2019”. The Total OPEB liability as of June 30, 2020 is determined using these updated assumptions.

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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 is summarized in the table below.:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Growth		
US Equity	4.50%	18.75%
Non-US Equity	5.25%	18.75%
Private Equity	6.65%	10.00%
Specialty Credit/High Yield	3.90%	15.00%
Liquidity		
Core Bonds	-0.25%	13.50%
Cash	-0.75%	1.00%
Diversifying Strategies		
Real Estate	5.30%	5.00%
Opportunistic	2.25%	3.00%
Real Return	3.95%	15.00%
	3.96%	100.00%

Discount rate. The projection of cash flows used to determine the discount rate of 5.34% for CERS Nonhazardous 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 on OPEB plan investments 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, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actual determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trust. 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.

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019**

Note H – Postemployment Benefits Other Than Pensions (Continued)

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

Sensitivity of the District’s proportionate share of the collective net OPEB liability to changes in discount rate. The following presents the District’s proportionate share of the collective net OPEB liability as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.34%) or 1 percentage point higher (6.34%) than the current discount rate:

	<u>1% Decrease (4.34%)</u>	<u>Current Discount Rate (5.34%)</u>	<u>1% Increase (6.34%)</u>
West Shelby Water District's Net OPEB liability	\$ 275,380	\$ 214,353	\$ 164,229

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 a healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
West Shelby Water District's Net OPEB liability	\$ 165,962	\$ 214,353	\$ 273,075

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

Note I - Bonds Payable

Rural Economic & Community Development

The bond payable is the amount due Rural Economic & Community Development for long term financing as follows at December 31, 2020:

Bonds dated January 11, 2001 for \$845,000 with interest at 5%	<u>\$ 598,000</u>
Total Bonds Outstanding	<u>\$ 598,000</u>

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019**

Note I - Bonds Payable (Continued)

Rural Economic & Community Development (Continued)

The balance at December 31, 2019 was \$617,000. During 2020, \$19,000 of principal payments were made, which leaves an outstanding balance of \$598,000 at December 31, 2020. The bonds contain a provision that in an event of default, outstanding amounts become immediately due if the District is unable to make payment. Future maturities of bonds are as follows:

	Principal	Interest	Total
2021	\$ 19,000	\$ 29,900	\$ 48,900
2022	21,000	28,950	49,950
2023	21,000	27,900	48,900
2024	23,000	26,850	49,850
2025	24,000	25,700	49,700
2026-2030	138,000	109,350	247,350
2031-2035	176,000	71,300	247,300
2036-2039	176,000	22,500	198,500
	<u>\$ 598,000</u>	<u>\$ 342,450</u>	<u>\$ 940,450</u>

All properties and assets, both real and personnel, and revenues are pledged to secure these loans.

Kentucky Rural Water Financing Corporation

On July 15, 2013, the Kentucky Rural Water Financing Corporation loan noted was refinanced. The Kentucky Rural Water Financing Corporation Flexible Term Series 2013B bonds will have variable interest rates ranging from 2.00% - 4.50%. The bonds mature on February 1, 2023. The outstanding principal amount of the bonds at December 31, 2020 and 2019 was \$145,000 and \$180,000, respectively. The bonds were sold at a premium in the amount of \$35,744. The premium is being amortized over the term of the bonds. The unamortized bond premium is recorded as a noncurrent liability on the Statement of Net Position. The premium amortization, which is a decrease in interest expense, was \$3,113 and \$3,113 for the years ended December 31, 2020 and 2019, respectively. The unamortized bond premium as of December 31, 2020 and 2019 was \$10,307 and \$13,420, respectively.

The bonds contain a provision that in an event of default, outstanding amounts become immediately due if the District is unable to make payment.

Future maturities of bonds are as follows:

	Principal	Interest	Total
2021	\$ 40,000	\$ 3,750	\$ 43,750
2022	40,000	2,150	42,150
2023	30,000	675	30,675
	<u>\$ 110,000</u>	<u>\$ 6,575</u>	<u>\$ 116,575</u>

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019

Note J - Long-term Debt

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

	<u>Beginning Balance</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Enterprise Activities:				
General Obligation Bonds	\$ 617,000	\$ (19,000)	\$ 598,000	\$ 19,000
Kentucky Rural Water Note	<u>145,000</u>	<u>(35,000)</u>	<u>110,000</u>	<u>40,000</u>
Enterprise Activities Long-term Liabilities	<u>\$ 762,000</u>	<u>\$ (54,000)</u>	<u>\$ 708,000</u>	<u>\$ 59,000</u>

Note K- Revenue from Sale of Water

The District purchase 100% of the water it sells from two vendors. Approximately 77% of water is purchased from Louisville Water Company; the remaining 23% is purchased from the Shelbyville Municipal Water & Sewer Commission.

The following is a statistical analysis of water purchased, sold, and unbilled.

	<u>Water Purchased</u>		<u>Water Sold</u>		<u>Water Unbilled</u>	
	<u>Gallons</u>	<u>Cost/1000</u>	<u>Gallons Sold/1000</u>			
2020	301,471,700	\$ 2.443	272,875,130	\$ 6.068	28,596,570	9.49%
2019	312,230,090	\$ 2.387	287,046,200	\$ 5.918	25,183,890	8.07%
2018	301,010,850	\$ 2.309	275,040,300	\$ 5.836	25,970,550	8.63%
2017	289,906,300	\$ 2.241	255,908,800	\$ 5.899	33,997,500	11.73%
2016	288,964,100	\$ 2.150	261,573,000	\$ 5.750	27,391,100	9.48%

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2020 and 2019**

Note L - Future Accounting Pronouncements

In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The provisions of this Statement are effective immediately. This Statement provides temporary relief to governments in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The provisions of this Statement are effective for fiscal years beginning after December 15, 2019. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

In June 2017, the GASB issued Statement No. 87, Leases. The provisions of this Statement are effective for fiscal years beginning after December 15, 2019. This Statement requires 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 the 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. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor 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 implementation of GASB Standard 89 has been postponed by one year and the implementation GASB Standard number 87 has been delayed by eighteen months by the provisions of GASB Statement No. 95.

Required Supplementary Information

West Shelby Water District
Required Supplementary Information - Schedule of Net Pension
Liability and Related Ratios Based on Participation in the
County Employees' Retirement Systems of KRS
Fiscal Year Ending June 30,

	2014	2015	2016	2017	2018	2019	2020
Total Net Pension Liability for County Employees Retirement Systems	\$ 3,244,377,000	\$ 4,299,525,000	\$ 4,923,618,000	\$ 5,853,307,443	\$ 6,090,305,000	\$ 7,033,045,000	\$ 7,669,917,000
Employer's Proportion (Percentage) of Net Pension Liability	0.009063055%	0.008081509%	0.007807870%	0.007889000%	0.008996000%	0.008921000%	0.008879000%
Employer's Proportion (Amount) of Net Pension Liability	294,040	347,467	384,430	461,767	547,884	627,418	681,012
Employer's Covered-Employer payroll	\$ 198,461	\$ 191,839	\$ 219,117	\$ 192,079	\$ 222,970	\$ 249,997	\$ 248,076
Employer's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of Employer's Covered-Employer Payroll	148.16%	181.12%	175.40%	240.40%	245.72%	250.97%	274.52%
Total Pension Plan's Fiduciary Net Position	\$ 6,528,146,000	\$ 6,440,800,000	\$ 6,141,395,000	\$ 6,687,237,000	\$ 7,018,963,000	\$ 7,159,921,000	\$ 7,027,327,000
Total Pension's Plan Pension Liability	\$ 9,772,523,000	\$ 10,740,325,000	\$ 11,065,013,000	\$ 12,540,545,000	\$ 13,109,268,000	\$ 14,192,966,000	\$ 14,697,244,000
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	66.80%	59.97%	55.50%	53.30%	53.54%	50.45%	47.81%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

See independent auditor's report.

West Shelby Water District
Required Supplementary Information - Schedule of Contributions
Based on Participation In the County Employees' Retirement
System of KRS
Fiscal Year Ending June 30

	2014	2015	2016	2017	2018	2019	2020
Actuarially determined contribution	\$ 27,618	\$ 23,841	\$ 28,659	\$ 26,795	\$ 32,286	\$ 36,500	\$ 43,896
Contributions in relation to the actuarially determined contribution	<u>27,618</u>	<u>23,841</u>	<u>28,659</u>	<u>26,795</u>	<u>32,286</u>	<u>36,500</u>	<u>43,896</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	198,461	191,839	219,117	192,079	222,970	249,997	248,076
Contributions as a percentage covered-employee payroll	13.92%	12.43%	13.08%	13.95%	14.48%	14.60%	17.69%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

Notes to Schedules Related to the County Employees' Retirement System of KRS Information

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Methods and assumptions used to determine contribution rates:

Valuation Date	June 30, 2017
Experience Date	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method Recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

See independent auditor's report.

**West Shelby Water District
Required Supplementary Information - Schedule of Net OPEB
Liability and Related Ratios Based on Participation in the
County Employees' Retirement System Insurance Fund of KRS
Fiscal Year Ending June 30,**

	2018	2019	2020
Total Net OPEB Liability for County Employees Retirement Systems	\$ 1,775,480,122	\$ 1,681,955,000	\$ 2,414,696,000
Employer's Proportion (Percentage) of Net OPEB Liability	0.008996000%	0.008919000%	0.008877000%
Employer's Proportion (Amount) of Net OPEB Liability	159,722	150,014	214,353
Employer's Covered-Employer payroll	\$ 222,970	\$ 249,997	\$ 248,076
Employer's Proportionate Share (Amount) of the Net OPEB Liability as a Percentage of Employer's Covered-Employer Payroll	71.63%	60.01%	86.41%
Total OPEB Plan's Fiduciary Net Position	\$ 2,414,126,000	\$ 2,569,511,000	\$ 2,581,613,000
Total OPEB's Plan OPEB Liability	\$ 4,189,606,000	\$ 4,251,466,000	\$ 4,996,309,000
Total OPEB Plan's Fiduciary Net Position as a Percentage of Total OPEB Liability	57.62%	60.44%	51.67%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

See independent auditor's report.

West Shelby Water District
Required Supplementary Information - Schedule of Contributions
Based on Participation In the County Employees' Retirement
System Insurance Fund of KRS
Fiscal Year Ending June 30

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially determined contribution	\$ 10,479	\$ 11,836	\$ 10,826
Contributions in relation to the actuarially determined contribution	<u>10,479</u>	<u>11,836</u>	<u>10,826</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	222,970	249,997	248,076
Contributions as a percentage covered-employee payroll	4.70%	4.73%	4.36%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

Notes to Schedules Related to the County Employees' Retirement Insurance Fund of KRS Information

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date	June 30, 2018
Experience Date	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method Recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Investment Rate of Return	6.25%
Retirement age	65 years or 27 years of service regardless of age
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.

See independent auditor's report.

Supplementary Information

West Shelby Water District
Schedule of Revenues, Expenses and Changes in Net Position - Actual to Budget
For the Fiscal Year Ended December 31, 2020

	Actual	Budget	Variance Favorable (Unfavorable)
Revenue from Sale of Water			
Residential customers	\$ 866,972	\$ 800,000	\$ 66,972
Industrial customers	358,399	350,000	8,399
Commercial customers	201,996	200,000	1,996
Public authorities	109,277	55,000	54,277
Private fire protection	81,947	65,000	16,947
Multi-family dwellings	37,207	90,000	(52,793)
Tax-exempt non-government	2,971	3,000	(29)
Total Revenue from Sale of Water	1,658,769	1,563,000	95,769
Other Revenue			
Miscellaneous revenue	14,041	18,000	(3,959)
Forfeited discounts	2,490	13,000	(10,510)
Total Other Revenues	16,531	31,000	(14,469)
Total Revenues	1,675,300	1,594,000	81,300
Operating and Maintenance Expenses			
Water purchased	741,625	700,000	(41,625)
Salaries	245,786	254,000	8,214
Employee retirement	134,231	76,000	(58,231)
Employee insurance	98,745	90,000	(8,745)
Maintenance materials and supplies	70,681	32,000	(38,681)
Insurance	28,728	25,000	(3,728)
Legal and accounting	28,200	20,000	(8,200)
Retirement health insurance	24,304	8,700	(15,604)
Office supplies	24,298	19,000	(5,298)
Payroll taxes	18,365	17,000	(1,365)
Commissioners fees	18,000	18,000	-
Utilities	16,840	10,000	(6,840)
Operating supplies and expenses	16,500	20,000	3,500
Truck and equipment expenses	16,416	20,000	3,584
Computer/copier support	14,227	10,000	(4,227)
Power-pumping equipment	11,636	18,000	6,364
Miscellaneous	7,942	11,100	3,158
Employee uniforms	4,645	4,000	(645)
Rent	3,454	3,700	246
Employee training	3,264	2,500	(764)
Travel	-	500	500
Total Operating and Maintenance Expenses	1,527,887	1,359,500	(168,387)

See independent auditor's report.

West Shelby Water District
Schedule of Revenues, Expenses and Changes in Net Position - Actual to Budget (Continued)
For the Fiscal Year Ended December 31, 2020

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Other Operating Deductions			
Depreciation	560,711	428,000	(132,711)
Total Other Operating Deductions	<u>560,711</u>	<u>428,000</u>	<u>(132,711)</u>
Total Expenses	<u>2,088,598</u>	<u>1,787,500</u>	<u>(301,098)</u>
Total Operating Loss	(413,298)	(193,500)	(219,798)
Non-operating Revenues (Expenses)			
Net decrease in fair value of investments	(806)	-	(806)
Investment income	16,711	25,000	(8,289)
Interest on long-term debt	<u>(31,780)</u>	<u>(30,000)</u>	<u>(1,780)</u>
Total Non-operating (Expenses)	<u>(15,875)</u>	<u>(5,000)</u>	<u>(10,875)</u>
Excess Expenses Over Revenues	<u>\$ (429,173)</u>	<u>\$ (198,500)</u>	<u>\$ (230,673)</u>

See independent auditor's report.

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

West Shelby Water District
Simpsonville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the West Shelby Water District "District", as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 12, 2021.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

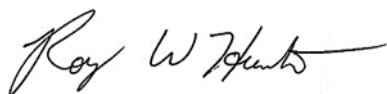
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Roy W. Hunter". The signature is written in black ink and is positioned above the typed name.

Roy W. Hunter, CPA PLLC
Lexington, Kentucky
March 12, 2021