

**Western Pulaski County Water District**

**Financial Statements**

**December 31, 2019 and 2018**



## Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 6
Statements of Net Position	7 - 8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11 - 26
Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability – CERS	27
Schedule of the District's Pension Contributions – CERS	28
Schedule of the District's Proportionate Share of the Net OPEB Liability – CERS	29
Schedule of the District's OPEB Contributions – CERS	30
Supplementary Information:	
Statement of Revenues, Expenses and Change in Net Position – Budget and Actual December 31, 2019	31
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32 - 33

Cindy L. Greer, CPA ■ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ■ L. Joe Rutledge, CPA ■ Ryan A. Mosier, CPA ■ Jenna B. Glass, CPA ■ Van Shepard, CPA

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Western Pulaski County Water District  
Somerset, Kentucky

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

We have audited the accompanying financial statements of the business-type activities of Western Pulaski County Water District, 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.

#### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Western Pulaski County Water District as of December 31, 2019 and 2018 and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4-6 and the Pension and OPEB Liability Schedules on pages 27-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The Statement of Revenues, Expenses and Change in Net Position – Budget and Actual for 2019 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Statement of Revenues, Expenses, and Change in Net Position – Budget and Actual 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 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 Statements of Revenues, Expenses and Change in Net Position – Budget and Actual are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2020 on our consideration of the Western Pulaski County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Western Pulaski County Water District's internal control over financial reporting and compliance.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

June 25, 2020

## **WESTERN PULASKI COUNTY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Western Pulaski County Water District, we offer readers of the District's financial statements this narrative overview of the financial activities of the District for the fiscal year ending December 31, 2019. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

### **Financial Highlights**

For the year ended December 31, 2019 total operating and non-operating revenues (including capital contributions) were \$3,639,953 an increase of \$557,798 from prior year, primarily due to an increase in water rates and grant revenue.

Total operating and non-operating expenses amounted to \$3,103,379 for the year ended December 31, 2019, a decrease of \$39,638, attributable mostly to the actuarial pension and OPEB expense determined by Kentucky Retirement Systems, as well as an increase in capitalized wages.

Total assets and deferred outflows increased by \$1,619,598, and total liabilities and deferred inflows increased by \$1,083,024. These changes resulted in an increase in net position of \$536,574

During 2019, the District paid off interim financing from Citizens National Bank with a Rural Development Bond and finished Phase I of construction on the Big Clifty Water Improvement Project.

### **Overview of the Financial Statements**

This report consists of this Management's Discussion and Analysis report, the Independent Auditor's Report, Financial Statements and Supplementary Information. The financial statements include notes which explain in detail some of the information included in the financial statements.

### **Required Financial Statements**

The financial statements of Western Pulaski County Water District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of Western Pulaski County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluation of the capital structure of Western Pulaski County Water District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of Western Pulaski County Water District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

# WESTERN PULASKI COUNTY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

## Western Pulaski County Water District Summary of Net Position December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Total Current Assets	\$ 2,907,410	\$ 2,543,555
Total Restricted Assets	702,568	631,220
Net Capital Assets	<u>15,513,291</u>	<u>14,236,885</u>
<b>Total Assets</b>	<u>19,123,269</u>	<u>17,411,660</u>
 Deferred Outflows	 <u>234,969</u>	 <u>326,980</u>
 <b>Liabilities</b>		
Total Current Liabilities	753,344	892,189
Total Long-term Liabilities	<u>8,647,015</u>	<u>7,478,477</u>
<b>Total Liabilities</b>	<u>9,400,359</u>	<u>8,370,666</u>
 Deferred Inflows	 <u>148,689</u>	 <u>95,358</u>
 <b>Net Position</b>		
Invested in capital assets, net of related debt	7,715,618	7,517,199
Restricted for equipment replacement	427,211	402,044
Restricted for debt retirement	275,357	229,176
Unrestricted	<u>1,391,004</u>	<u>1,124,197</u>
<b>Total Net Position</b>	<u>\$ 9,809,190</u>	<u>\$ 9,272,616</u>

The largest portion (79%) of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding.

Restricted net position (7%) represent resources that are subject to external restrictions on how they may be used.

The balance (14%) of unrestricted net position may be used to meet the District's ongoing obligations to citizens, consumers and creditors.



**WESTERN PULASKI COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Summary of Changes in Net Position  
For the Year Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Total operating revenues	\$ 3,385,440	\$ 2,999,184
Total operating expenses	<u>2,918,177</u>	<u>2,995,583</u>
Operating income (loss)	467,263	3,601
Total non-operating revenue (expense)	<u>(155,194)</u>	<u>(116,386)</u>
Income before capital contributions	312,069	(112,785)
Capital contributions	<u>224,505</u>	<u>51,923</u>
Increase (decrease) in net position	536,574	(60,862)
Net position, beginning of year, restated 2018	<u>9,272,616</u>	<u>9,333,478</u>
Net position, end of year	<u><u>\$ 9,809,190</u></u>	<u><u>\$ 9,272,616</u></u>

Net position increased by \$536,574 from the prior year.

**Capital Asset Changes**

At December 31, 2019, the District had invested \$15,513,291 in capital assets net of accumulated depreciation. This amount represents a net increase of \$1,276,406 from the previous year due to construction projects during the year related to the Big Clifty Water Improvement Project.

**Budgetary Highlights**

The Western Pulaski County Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised. A budgetary comparison and analysis is presented on page 32 of this report.

**Debt Administration**

At December 31, 2019, the District had \$7,797,673 in outstanding debt, an increase of \$1,274,444 from the prior year's balance of \$5,624,998. The District incurred \$185,202 in interest expense associated with long term debt, \$42,315 was capitalized interest associated with construction.

**Request for Information**

This financial report is designed to provide our customers and creditors with a general overview of Western Pulaski County Water District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the Western Pulaski County Water District at 2128 West Highway 80, Somerset, KY or by phone (606) 679-1569.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2019 and 2018**

<b>Assets</b>	<u>2019</u>	<u>2018</u>
<b>Current Assets</b>		
Cash	\$ 2,422,066	\$ 2,037,289
Accounts receivable	385,699	371,347
Prepaid assets	9,309	7,648
Inventory	<u>90,336</u>	<u>127,271</u>
Total Current Assets	<u>2,907,410</u>	<u>2,543,555</u>
<b>Non-current Assets</b>		
Restricted Assets		
Cash - Depreciation fund	427,211	402,044
Cash - Bond and interest	<u>275,357</u>	<u>229,176</u>
Total Restricted Assets	<u>702,568</u>	<u>631,220</u>
Capital Assets		
Construction in progress	-	806,005
Land and land rights	494,938	494,938
Utility plant in service	24,528,186	22,057,480
Equipment	732,178	702,544
Accumulated depreciation	<u>(10,242,011)</u>	<u>(9,824,082)</u>
Net Capital Assets	<u>15,513,291</u>	<u>14,236,885</u>
Total Non-current Assets	<u>16,215,859</u>	<u>14,868,105</u>
Total Assets	<u>19,123,269</u>	<u>17,411,660</u>
Deferred Outflows		
Outflows relating to net pension and OPEB liabilities	<u>234,969</u>	<u>326,980</u>

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

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statements of Net Position, Concluded**  
**December 31, 2019 and 2018**

<b>Liabilities</b>	<u>2019</u>	<u>2018</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 144,003	\$ 167,277
Construction accounts payable	-	196,457
Customer deposits	254,557	237,023
Accrued liabilities	22,289	19,125
Accrued interest	93,995	75,807
Current maturities of long-term debt	<u>238,500</u>	<u>196,500</u>
Total Current Liabilities	<u>753,344</u>	<u>892,189</u>
<b>Long-term Liabilities</b>		
Accrued compensated absences	25,489	18,360
Long-term debt, less current maturities	7,559,173	6,326,729
Net OPEB liability	239,796	289,751
Net pension liability	<u>822,557</u>	<u>843,637</u>
Total Long-term Liabilities	<u>8,647,015</u>	<u>7,478,477</u>
 Total Liabilities	 <u>9,400,359</u>	 <u>8,370,666</u>
 Deferred Inflows		
Inflows relating to net pension and OPEB liabilities	<u>148,689</u>	<u>95,358</u>
 <b>Net Position</b>		
<b>Net Position</b>		
Invested in capital assets, net of related debt	7,715,618	7,517,199
Restricted for equipment replacement	427,211	402,044
Restricted for debt retirement	275,357	229,176
Unrestricted	<u>1,391,004</u>	<u>1,124,197</u>
 Total Net Position	 <u>\$ 9,809,190</u>	 <u>\$ 9,272,616</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating revenues:</b>		
Residential water sales	\$ 3,080,651	\$ 2,721,381
Commercial water sales	196,758	162,404
Miscellaneous service revenues	<u>108,031</u>	<u>115,399</u>
Total operating revenues	<u>3,385,440</u>	<u>2,999,184</u>
<b>Operating expenses:</b>		
Water purchases	1,356,514	1,321,510
Utilities	77,642	88,972
Transmission and distribution expense	105,826	44,815
Meter readers	100,445	99,872
Office expense	61,819	66,108
Transportation expenses	26,282	27,675
Insurance	53,890	55,489
Directors' fees	12,000	12,400
Employees' salaries and wages	291,123	344,683
Employees' pensions and benefits	171,204	144,339
Actuarial pension and OPEB expense	74,307	226,436
Payroll taxes	33,423	30,764
Depreciation and amortization	446,529	409,689
PSC tax assessment	5,866	5,843
Professional fees	56,088	68,604
Bad debts	12,631	11,566
Miscellaneous	<u>32,588</u>	<u>36,818</u>
Total operating expenses	<u>2,918,177</u>	<u>2,995,583</u>
Operating income (loss)	<u>467,263</u>	<u>3,601</u>
<b>Non-operating revenue (expenses):</b>		
Rents from water property	15,480	23,470
Interest income	14,528	7,578
Interest expense on long-term debt	<u>(185,202)</u>	<u>(147,434)</u>
Total non-operating revenue (expenses)	<u>(155,194)</u>	<u>(116,386)</u>
Income/(loss) before capital contributions	<u>312,069</u>	<u>(112,785)</u>
<b>Capital contributions</b>		
Grant revenue	109,770	-
Tap fees	<u>114,735</u>	<u>51,923</u>
Total capital contributions	<u>224,505</u>	<u>51,923</u>
Increase (decrease) in net position	536,574	(60,862)
<b>Net position:</b>		
Beginning of year 2018, restated	<u>9,272,616</u>	<u>9,333,478</u>
End of year	<u>\$ 9,809,190</u>	<u>\$ 9,272,616</u>

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

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statement of Cash Flows**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 3,388,622	\$ 3,009,441
Cash payments to suppliers for goods and services	(1,907,850)	(1,921,635)
Cash payments to employees for services	<u>(467,198)</u>	<u>(503,525)</u>
Net cash provided by (used) in operating activities	<u>1,013,574</u>	<u>584,281</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal paid on long-term debt	(2,292,031)	(192,500)
Proceeds interim financing and RD bond	3,566,475	1,090,731
Interest paid on long-term debt	(167,014)	(150,163)
Additions to capital assets	(1,722,935)	(1,413,383)
Increase (decrease) in construction payable	(196,457)	32,488
Grant revenue	109,770	-
Tap fees	<u>114,735</u>	<u>51,923</u>
Net cash provided by (used) in financing activities	<u>(587,457)</u>	<u>(580,904)</u>
<b>Cash flows from investing activities:</b>		
Rental income	15,480	23,470
Interest income	<u>14,528</u>	<u>7,578</u>
Net cash provided by (used) in investing activities	<u>30,008</u>	<u>31,048</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	456,125	34,425
Cash and cash equivalents, beginning of year	<u>2,668,509</u>	<u>2,634,084</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 3,124,634</u></u>	<u><u>\$ 2,668,509</u></u>
<b>Reconciliation of operating income to</b>		
<b>net cash provided by operating activities:</b>		
Operating income (loss)	\$ 467,263	\$ 3,601
Adjustments to reconcile operating income to		
net cash provided by operating activities:		
Depreciation and amortization	446,529	409,689
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(14,352)	(10,574)
(Increase) decrease in prepaid assets	(1,661)	582
(Increase) decrease in inventory	36,935	(103,271)
Increase (decrease) in actuarial pension/OPEB	74,307	226,436
Increase (decrease) in accounts payable	(23,274)	35,597
Increase (decrease) in customer deposits	17,534	20,831
Increase (decrease) in accrued liabilities	<u>10,293</u>	<u>1,390</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,013,574</u></u>	<u><u>\$ 584,281</u></u>

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

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies**

Organization

The Western Pulaski County Water District was organized under KRS 74.010 to provide water service to the residents of Western Pulaski County. The District's commissioners are appointed by the Pulaski County Judge-Executive.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses in Western Pulaski County.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital position, net of related debt, (ii) restricted, and (iii) unrestricted.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued**

These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted - This component of net position consists of 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.
- Unrestricted net position - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Receivables

The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of December 31, 2019 or 2018. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation expense for the years ending December 31, 2019 and 2018 was \$446,529 and \$409,689 respectively.

The estimated useful lives of capital assets are as follows:

Utility plant	40 - 62.5 years
Equipment	10 - 25 years

Cash and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value. The District has adopted no formal investment policy.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the Statement of Net Position.

Inventory

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capital addition as inventory items are consumed.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Concluded**

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Bond and Interest Redemption Fund

The ordinances authorizing the bond issues require monthly deposits of one-twelfth of the annual bond principal requirement and one-sixth of the semi-annual interest requirement. For the years ended December 31, 2019 the District had complied with this requirement.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles 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.

Depreciation Fund

The ordinances authorizing the various bond issues of the District require annual transfers of \$38,580 into a depreciation fund until the maximum requirement of \$394,740 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the years ended December 31, 2019 and 2018 the District had funds in excess of the required amount.

Compensated Absences

Full time employees with 1-3 years of service receive 1 week of paid vacation, 4-6 years, 2 weeks of vacation, 7-10 years, 3 weeks of vacation and 11 years or more, 4 weeks. Unused vacation time may be carried over from one calendar year to another with a maximum of 4 weeks accrued. Upon retirement or termination, employees are compensated for any currently accrued vacation pay.



**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 2 – Capital Assets**

Capital asset activity for the years ended December 31, 2019 and 2018 was as follows:

<b>2019</b>	Balance	Additions	Deletions	Balance
<i>Capital Assets not being depreciated</i>				
Land and rights	\$ 494,938	\$ -	\$ -	\$ 494,938
Construction in progress	806,005	-	(806,005)	-
<i>Total Non-Depreciable Capital Assets</i>	<u>1,300,943</u>	<u>-</u>	<u>(806,005)</u>	<u>494,938</u>
<i>Capital Assets being depreciated</i>				
Transmission and distribution lines	6,799,768	-	-	6,799,768
Line extensions	9,913,411	1,609,354	-	11,522,765
Meter installations	2,476,327	309,043	(28,600)	2,756,770
Services	568,482	-	-	568,482
Communication radios	9,106	-	-	9,106
Office equipment	207,799	11,834	-	219,633
Equipment and tools	80,308	-	-	80,308
Office building	255,572	-	-	255,572
Buildings	227,695	-	-	227,695
Distribution reservoir	1,262,945	-	-	1,262,945
Hydrants	20,147	-	-	20,147
Electric pumping equipment	533,133	580,909	-	1,114,042
Vehicles	405,331	17,800	-	423,131
<i>Total Depreciable Capital Assets</i>	<u>22,760,024</u>	<u>2,528,940</u>	<u>(28,600)</u>	<u>25,260,364</u>
Less: Accumulated depreciation	<u>(9,824,082)</u>	<u>(446,529)</u>	<u>28,600</u>	<u>(10,242,011)</u>
Total Net Capital Assets	<u>\$ 14,236,885</u>			<u>\$ 15,513,291</u>

<b>2018</b>	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and rights	\$ 494,938	\$ -	\$ -	\$ 494,938
Construction in progress	879,246	1,143,230	(1,216,471)	806,005
<i>Total Non-Depreciable Capital Assets</i>	<u>1,374,184</u>	<u>1,143,230</u>	<u>(1,216,471)</u>	<u>1,300,943</u>
<i>Capital Assets being depreciated</i>				
Transmission and distribution lines	6,799,768	-	-	6,799,768
Line extensions	9,913,411	-	-	9,913,411
Meter installations	2,366,189	149,188	(39,050)	2,476,327
Services	568,482	-	-	568,482
Communication radios	9,106	-	-	9,106
Office equipment	207,799	-	-	207,799
Equipment and tools	62,743	17,565	-	80,308
Office building	255,572	-	-	255,572
Buildings	227,695	-	-	227,695
Distribution reservoir	46,477	1,216,468	-	1,262,945
Hydrants	20,147	-	-	20,147
Electric pumping equipment	533,133	-	-	533,133
Vehicles	301,928	103,403	-	405,331
<i>Total Depreciable Capital Assets</i>	<u>21,312,450</u>	<u>1,486,624</u>	<u>(39,050)</u>	<u>22,760,024</u>
Less: Accumulated depreciation	<u>(9,453,443)</u>	<u>(409,689)</u>	<u>39,050</u>	<u>(9,824,082)</u>
Total Net Capital Assets	<u>\$ 13,233,191</u>			<u>\$ 14,236,885</u>

**Capitalization of Interest:**

Interest costs incurred during construction are capitalized. Interest capitalized for the years ended December 31, 2019 and 2018 was \$42,315 and \$19,510 respectively.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 3 – Long-Term Debt**

Long-term debt consists of the following bonds payable at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Series 2002A Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$900,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	\$ 706,000	\$ 724,000
Series 2002B Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$550,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	429,000	440,000
Series 2010 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$911,000; due in annual installments on January 1, through 2049; interest rate of 2.25% due semi-annually on January 1 and July 1.	788,000	805,000
Series 2012E Water Revenue Bonds issued through Kentucky Rural Water Finance Corporation in the amount of \$2,080,000; (to refund Series 2001A and 2001B revenue bonds) due in annual installments on July 1, through 2035; interest rate of 2.2 - 3.7% due semi-annually on January 1 and July 1.	1,305,000	1,430,000
Series 2013 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$1,400,000; due in annual installments on January 1, through 2053; interest rate of 2.25% due semi-annually on January 1 and July 1.	1,302,000	1,327,500
Series 2018 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$2,225,000; due in annual installments on January 1, through 2057; interest rate of 2.50% due semi-annually on January 1 and July 1.	<u>2,225,000</u>	<u>-</u>
Total Bonds Payable:	<u>\$ 6,755,000</u>	<u>\$ 4,726,500</u>

Long-term debt consists of the following notes not yet finalized at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
KIA F16-003 Loan issued through Kentucky Infrastructure Authority of the Federally Assisted Drinking Water Revolving Loan Fund for Water System Improvements project not to exceed \$3,304,000; interest of 1.75% due monthly succeeding date of initial draw of funds. A loan servicing fee of .25% of the annual outstanding balance shall be payable as part of each interest payment. Principal payments due June 1 and December 1 upon final draw of loan funds.	\$ 1,042,673	\$ 1,042,673
Interim financing through Citizens National Bank not to exceed \$2,500,000 interest rate of 4% due monthly immediately succeeding date of initial draw of funds. A certificate of deposit at Citizens National Bank in the amount of \$1,000,000 is held as collateral, as well as all furniture, fixtures and equipment of the District.	<u>-</u>	<u>754,056</u>
Total Notes Payable:	<u>\$ 1,042,673</u>	<u>\$ 1,796,729</u>

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 3 – Long-Term Debt, Concluded**

Principal and interest maturities of long-term debt are as follows:

	Principal	Interest	Total
2020	\$ 238,500	\$ 189,403	\$ 427,903
2021	247,000	187,559	434,559
2022	255,000	179,884	434,884
2023	259,000	171,934	430,934
2024	266,500	163,886	430,386
2025-2029	988,000	710,894	1,698,894
2030-2034	1,020,500	561,772	1,582,272
2035-2039	960,500	398,322	1,358,822
2040-2044	895,500	251,075	1,146,575
2045-2049	760,500	151,060	911,560
2050-2054	604,000	67,228	671,228
2055-2057	260,000	9,826	269,826
	<u>\$ 6,755,000</u>	<u>\$ 3,042,843</u>	<u>\$ 9,797,843</u>

Long-term debt activity for the years ended December 31, 2019 and 2018 was as follows:

Debt	Balance January 1, 2019	Additions	Debt Payments and Reductions	Balance December 31, 2019	Amount Due within One Year
RD 2002A	\$ 724,000	\$ -	\$ (18,000)	\$ 706,000	\$ (18,000)
RD 2002B	440,000	-	(11,000)	429,000	(11,000)
RD 2010	805,000	-	(17,000)	788,000	(17,500)
KRWFC 2012E	1,430,000	-	(125,000)	1,305,000	(130,000)
RD 2013	1,327,500	-	(25,500)	1,302,000	(26,000)
KIA F16-003	1,042,673	-	-	1,042,673	-
RD 2019	-	2,225,000	-	2,225,000	(36,000)
CNB Interim Financing	754,056	1,341,475	(2,095,531)	-	-
	<u>\$ 6,523,229</u>	<u>\$ 3,566,475</u>	<u>\$ (2,292,031)</u>	<u>\$ 7,797,673</u>	<u>\$ (238,500)</u>

Debt	Balance January 1, 2018	Additions	Debt Payments and Reductions	Balance December 31, 2018	Amount Due within One Year
RD 2002A	\$ 740,000	\$ -	\$ (16,000)	\$ 724,000	\$ (18,000)
RD 2002B	450,000	-	(10,000)	440,000	(11,000)
RD 2010	821,500	-	(16,500)	805,000	(17,000)
KRWFC 2012E	1,555,000	-	(125,000)	1,430,000	(125,000)
RD 2013	1,352,500	-	(25,000)	1,327,500	(25,500)
KIA F16-003	705,998	336,675	-	1,042,673	-
CNB Interim Financing	-	754,056	-	754,056	-
	<u>\$ 5,624,998</u>	<u>\$ 1,090,731</u>	<u>\$ (192,500)</u>	<u>\$ 6,523,229</u>	<u>\$ (196,500)</u>

**Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The District performed calculations of excess investment earnings on various bonds and at December 31, 2019 and does not expect to incur a liability.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 4 – Cash and Investments**

The carrying amount of the District's cash deposits was \$3,124,634 and \$2,668,509 for the years ending December 31, 2019 and 2018 respectively and the bank balance was \$3,248,627 and \$2,687,890. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. All of the District's deposits were either insured by FDIC or by collateral pledged by the financial institution. The District does not have a formal investment policy.

**Note 5 – Pension Plan**

Governments providing defined benefit pensions are required to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The District participates in the County Employee Retirement System (CERS), a cost-sharing multiple-employer retirement system administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). CERS is a defined benefit plan created by the Kentucky General Assembly. The Plan covers substantially all full-time employees. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the State legislature. Benefits fully vest upon reaching five years of service and are established by the state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. For retirement purposes, employees are grouped into three tiers, based on hire date:

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

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 5 – Pension Plan, Continued**

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at [www.kyret.ky.gov](http://www.kyret.ky.gov)

Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. There have been no changes in actuarial assumptions since June 30, 2017. 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 the 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 was determined using these updated provisions.

Required contributions by the employee are based on the tier:

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

At December 31, 2019, the District reported a liability for its proportionate share of the net pension liability for CERS.

District's proportionate share of the CERS net pension liability	\$ 822,557
------------------------------------------------------------------	------------

The net pension liability for each plan was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the District's proportion was .013506%.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 5 – Pension Plan, Continued**

For the year ended December 31, 2019, the District recognized pension expense of \$142,411. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience in the measurement of the total pension liability	\$ 14,941	\$ 12,040
Net difference between projected and actual earnings on pension plan investments	21,300	48,112
Changes in assumptions	44,766	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	24,954	31,141
District contributions subsequent to the measurement date	65,969	-
	<u>\$ 171,930</u>	<u>\$ 91,293</u>

The 2019 CERS employer contributions are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows related to pensions will be amortized and recognized in pension expense as follows:

Year Ended	Net Deferred Outflows (Inflows)
12/31/2020	\$ 34,454
12/31/2021	(15,372)
12/31/2022	(4,414)
12/31/2023	-
12/31/2024	-
	<u>\$ 14,668</u>

*Actuarial assumptions*—Prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30:

	<u>2018</u>	<u>2017</u>
Inflation	2.30%	2.30%
Projected salary increases	3.05%	3.05%
Investment rate of return, net of investment expense and inflation	6.25%	6.25%

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 5 – Pension Plan, 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

*Long term rate of return:* The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The following table presents the allocation and long-term expected return on plan assets:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Large Cap	5.0%	4.50%
US Mid Cap	6.0%	4.50%
US Small Cap	6.5%	5.50%
International Developed	12.5%	6.50%
Emerging Markets	5.0%	7.25%
Global Bonds	4.0%	3.00%
Global IG Credit	2.0%	3.75%
High Yield	7.0%	5.50%
EMD	5.0%	6.00%
Illiquid Private	10.0%	8.50%
Private Equity	10.0%	6.50%
Real Estate	5.0%	9.00%
Absolute Return	10.0%	5.00%
Real Return	10.0%	7.00%
Cash	<u>2.0%</u>	1.50%
Total	<u>100.0%</u>	

*Discount rate:* The discount rate used to measure the total pension liability was 6.25%.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 5 – Pension Plan, Concluded**

*Projected cash flows:* The projection of cash flows used to determine the discount rate assumed that plan employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

*Municipal bond rate:* The discount rate determination does not use a municipal bond rate.

*Periods of projected benefit payments:* Projected future benefit payments for all current plan members were projected through 2117.

The following table presents the net pension liability of the District, calculated using the discount rates selected by CERS, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$1,035,514	\$822,557	\$644,136

*Pension plan fiduciary net position*—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CERS.

Non-hazardous plan members are required to contribute 5% of their annual creditable compensation. The Western Pulaski County Water District is required to contribute at actuarially determined rates. The pension contribution rate for the year ended June 30, 2019 was 16.22% and 19.30% for the year ended June 30, 2020 for non-hazardous employees' annual creditable compensation. The OPEB contribution rate was 5.26% for the year ended June 30, 2019 and 4.76% for the year ended June 30, 2020. The contribution requirements of the plan members of the Western Pulaski County Water District, are established and may be amended by the Board of Trustees of KRS.

For the year ended December 31, 2019, the District's total covered payroll was approximately \$373,000. The District contributed approximately \$66,000 for pension and \$19,000 for OPEB benefits and employees contributed approximately \$21,000 for pension and OPEB benefits.



**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 6 – Other Postemployment Benefits (OPEB)**

Kentucky Retirement Systems provides participants their proportionate share of the OPEB unfunded liability calculated by Gabriel, Roeder, Smith & Co (GRS) to be used in financial reports. KRS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at [www.kyret.ky.gov](http://www.kyret.ky.gov).

*Plan Description:* The Kentucky Retirement Systems' Insurance Fund is a cost sharing multiple-employer defined benefit Other Post-Employment Benefit plan for members that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state departments, board, agency, county, District, school board, and any additional eligible local agencies electing to participate.

*Benefits Provided:* The plan was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. OPEB may be extended to beneficiaries of plan members under certain circumstances. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan.

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 provisions.

*Contributions:* 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, 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 maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 6 – Other Postemployment Benefits (OPEB), Continued**

Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. See chart for current values for Dollar Contribution. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Dollar Contribution for Fiscal Year 2018		Portion Paid by Insurance Fund	
For Member participation date on or after July 1, 2003		As of June 30, 2018	
<u>System</u>	(in whole dollars)	<u>Years of service</u>	<u>% Paid by Insurance Fund</u>
KERS Non-hazardous	\$ 13.38	20+ years	100.00%
KERS Hazardous	\$ 20.07	15-19 years	75.00%
CERS Non-hazardous	\$ 13.38	10-14 years	50.00%
CERS Hazardous	\$ 20.07	4-9 years	25.00%
SPRS	\$ 20.07	Less than 4 years	0.00%

Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (25 years as of June 30, 2018) and the actuarial assumptions and methods adopted by the Board of Trustees. The fully insured premiums KRS pays for the CERS health insurance plans 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 it to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit subsidy is not currently being 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 trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The distributions from the retiree health insurance trust pay the employers' portion of the blended premiums, not the employers' portion of the underlying retiree claims costs. As a result, the benefit payments and contribution amounts need to include an adjustment related to the implicit subsidy. Participating employers adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes.

*OPEB Plan Fiduciary Net Position:* Detailed information about the Plan's fiduciary net position is available in the separately issued KRS financial statements.

At June 30, 2018, the District reported a liability of \$239,796 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. At June 30, 2017, the District's proportionate share was .013506%.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 6 – Other Postemployment Benefits (OPEB), Continued**

As a result of its requirement to contribute to the Plan, the District recognized OPEB expense of \$16,881 for the year ended December 31, 2019 and reported deferred inflows and deferred outflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience in the measurement of the OPEB liability	\$ -	\$ 26,087
Net difference between projected and actual investment earnings on OPEB investments	-	16,517
Changes in assumptions and other inputs	47,891	554
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	14,238
District contributions subsequent to the measurement date of the OPEB liability	15,148	-
	<u>\$ 63,039</u>	<u>\$ 57,396</u>

The deferred outflows resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in expense as follows:

Year Ended	Net Deferred Outflows/(Inflows)
12/31/2020	\$ (1,858)
12/31/2021	(1,858)
12/31/2022	1,350
12/31/2023	(4,788)
12/31/2024	(2,351)
Total	<u>\$ (9,505)</u>

*Actuarial Assumptions:* The total OPEB liability, net OPEB liability and sensitivity information are based on an actuarial valuation performed as of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018 using generally accepted actuarial principles. The KRS Board of Trustees adopted the following updated actuarial assumptions used in performing the actuarial valuation as of June 30, 2018:

Assumed investment return	6.25%
Inflation factor	2.30%
Payroll growth	2.00%

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 6 – Other Postemployment Benefits (OPEB), Continued**

Mortality rates were based on the RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).

The long-term expected rate of return was determined by using a building-block method in which the 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 following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	

*Discount Rate:* The single discount rate of 5.85% for Non-hazardous employees was used to measure the total OPEB liability as of June 30, 2018. The single discount rate is based on the expected rate of return on OPEB plan investments 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, 2017. The following presents the District's proportionate share of the net OPEB liability if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS-Discount Rate	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	\$ 311,457	\$ 239,796	\$ 178,755

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note 6 – Other Postemployment Benefits (OPEB), Concluded**

*Healthcare Trend Rate:* The initial trend rate for participants under 65 years of age starts at 7.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 5 years. For those over 65 years of age the trend rate starts at 5.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 2 years. The following table presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rate:

	<u>1% Decrease</u>	Healthcare Cost Current <u>Trend Rate</u>	<u>1% Increase</u>
Healthcare Cost Trend Rate	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	\$ 178,531	\$ 239,796	\$ 312,011

**Note 7 – Deferred Inflows/Deferred Outflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2019 the District reported deferred outflows related to the pension and OPEB liabilities in the amount of \$234,969.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At December 31, 2019 the District reported deferred inflows related to the pension and OPEB liabilities in the amount of \$148,689.

**Note 8 – Commitments**

The District began the Water System Improvements and Replacements Project in 2017 that includes the construction of the Big Clifty Creek Area Water Main Transmission as well as Hickory Nut Water Storage Tank. The Hickory Nut Water Storage Tank project was completed in October 2018. Phase I of the Big Clifty Project was completed in December 2019. The Kentucky Infrastructure Authority granted approval of loan funds not to exceed \$3,304,000, as of December 31, 2018, the District had drawn \$1,042,673, no additional KIA loan funds were drawn in 2019. The USDA Rural Development approved bond funds in the amount of \$2,225,000 and grant funds in the amount of \$854,000. As of December 31, 2019, the District had issued the Rural Development Bond and had received \$109,770 of the grant funds available.

**Note 9 - Subsequent Events**

Management has evaluated subsequent events through June 25, 2020, the date which the financial statements were available to be issued.

## **Required Supplementary Information**

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**County Employees Retirement System**  
**Last Ten Fiscal Years as of December 31<sup>st</sup> \*\***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's portion of the net pension liability	0.01351%	0.01441%	0.01207%	0.01152%	0.01198%
District's proportionate share of net pension liability	\$ 822,557	\$ 843,637	\$ 594,353	\$ 495,402	\$ 388,639
District's covered-employee payroll	\$ 373,000	\$ 337,000	\$ 345,000	\$ 340,000	\$ 260,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	220.52%	250.34%	172.28%	145.71%	149.48%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	59.97%	66.80%

\*\* Schedule is intended to show information for ten years.  
Additional years will be displayed as they become available.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Schedule of the District's Pension Contributions**  
**County Employees Retirement System**  
**Last Ten Fiscal Years as of December 31<sup>st</sup> \*\***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 65,969	\$ 52,091	\$ 65,000	\$ 62,000	\$ 46,000
Contributions in relation to the contractually required contribution	<u>(65,969)</u>	<u>(52,091)</u>	<u>(65,000)</u>	<u>(62,000)</u>	<u>(46,000)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 373,000	\$ 337,000	\$ 345,000	\$ 340,000	\$ 260,000
Contributions as a percentage of covered- employee payroll	17.69%	15.46%	18.84%	18.24%	17.69%

\*\*Schedule is intended to show information for ten years.  
Additional years will be displayed as they become available.



**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Schedule of the District's Proportionate Share of the Net OPEB Liability**  
**County Employees Retirement System**  
**Last Ten Fiscal Years as of December 31<sup>st</sup> \*\***

	<u>2019</u>	<u>2018</u>
District's portion of the net OPEB liability	0.01351%	0.01441%
District's proportionate share of net OPEB liability	\$ 239,796	\$ 289,751
District's covered-employee payroll	\$ 373,000	\$ 337,000
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	64.29%	85.98%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	52.40%

\*\* Schedule is intended to show information for ten years.  
Additional years will be displayed as they become available.

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Schedule of the District's OPEB Contributions**  
**County Employees Retirement System**  
**Last Ten Fiscal Years as of December 31<sup>st</sup> \*\***

	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 19,016	\$ 17,364
Contributions in relation to the contractually required contribution	<u>(19,016)</u>	<u>(17,364)</u>
	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 373,000	\$ 337,000
Contributions as a percentage of covered- employee payroll	5.10%	5.15%

\*\*Schedule is intended to show information for ten years.  
Additional years will be displayed as they become available.

## **Supplementary Information**

**WESTERN PULASKI COUNTY WATER DISTRICT**  
**Statement of Revenues, Expenses and**  
**Change in Net Position – Budget and Actual**  
**For the Year Ended December 31, 2019**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating revenues:</b>			
Water sales	\$ 3,100,000	\$ 3,277,409	\$ 177,409
Miscellaneous service revenues	116,900	108,031	(8,869)
Total operating revenues	<u>3,216,900</u>	<u>3,385,440</u>	<u>168,540</u>
<b>Operating expenses:</b>			
Salaries and wages	409,600	303,123	106,477
Purchased water	1,385,000	1,356,514	28,486
Materials and supplies	395,800	167,645	228,155
Contractual services	156,600	156,533	67
Transportation	32,600	26,282	6,318
Insurance	140,400	53,890	86,510
Other expenses	119,600	407,661	(288,061)
Depreciation	630,000	446,529	183,471
Total operating expenses	<u>3,269,600</u>	<u>2,918,177</u>	<u>351,423</u>
Operating income	<u>(52,700)</u>	<u>467,263</u>	<u>519,963</u>
<b>Non-operating revenue (expenses):</b>			
Rents from water property	40,900	15,480	(25,420)
Interest income and other	-	14,528	14,528
Interest expense on long-term debt	(146,064)	(185,202)	(39,138)
Total non-operating revenue (expenses)	<u>(105,164)</u>	<u>(155,194)</u>	<u>(50,030)</u>
Income before capital contributions	<u>(157,864)</u>	<u>312,069</u>	<u>469,933</u>
<b>Capital contributions</b>			
Grant proceeds	50,000	109,770	59,770
Customer contributions	<u>50,000</u>	<u>114,735</u>	<u>64,735</u>
Total capital contributions	<u>100,000</u>	<u>224,505</u>	<u>124,505</u>
Increase/(Decrease) in net position	<u>\$ (57,864)</u>	<u>\$ 536,574</u>	<u>\$ 594,438</u>

Cindy L. Greer, CPA ■ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ■ L. Joe Rutledge, CPA ■ Ryan A. Mosier, CPA ■ Jenna B. Glass, CPA ■ Van Shepard, CPA

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

Board of Directors  
Western Pulaski County Water District  
Somerset, 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 Western Pulaski County Water District, as of and for the years ended December 31, 2019 and 2018 and the related notes to the financial statements and have issued our report thereon dated June 25, 2020.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Western Pulaski County Water 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 is required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

June 25, 2020

