

**REPORT OF THE AUDIT OF THE
BREATHITT COUNTY
WATER DISTRICT BOARD OF COMMISSIONERS**

**For The Year Ended
December 31, 2020**

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
REPORT OF THE AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2020**

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Independent Auditor's Report

To the Board of Commissioners
Breathitt County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Breathitt County Water District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Breathitt County Water District 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 opinions 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 from material misstatement.

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

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

Opinions

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

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension supplemental reporting on pages 4-6 and 32-33 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2021, on our consideration of the Breathitt 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 the Breathitt County Water District's internal control over financial reporting and compliance.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

May 19, 2021

BREATHITT COUNTY WATER DISTRICT COMMISSION OFFICIALS

For The Year Ended December 31, 2020

Water District Board Members:

| | |
|--------------------|---------------|
| Bobby Thorpe | Chairman |
| Sammie Turner | Vice Chairman |
| Cheryl S. Campbell | Treasurer |
| Eva Fugate | Secretary |
| David Ingram | Board Member |

Appointed Personnel:

| | |
|-----------------|-------------------------|
| Estill McIntosh | Superintendent |
| Cheryl Campbell | Office Clerk & Recorder |

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

As management of the Breathitt County Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2020. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$248,827. The ending cash balance for the District was \$280,214.
- As of December 31, 2020 the District had 1,897 customers, down from 1,912 the previous year.
- The District continues to extend water lines to various locations in Breathitt County.
- The District adopted GASB's 68 and 75 in prior fiscal year and at December 31, 2020 recognizing the District's net pension liability of \$466,643 and a net OPEB liability of \$111,564 in relation to the District's participation in County Employee's Retirement System. The net pension liability for the prior year was \$402,630 and the OPEB liability was \$117,359.

Management's Discussion and Analysis (MD & A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the Breathitt County Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2020. Please read the MD & A in conjunction with the District's financial statements.

For accounting purposes, the District is classified as an enterprise fund: Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indicator.

Overview of the Financial Statements

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. The District's financial statements are presented as fund level financial statements because the District only has proprietary funds. In addition, reports and schedules required by Government Auditing Standards are included.

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the District's activities.

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Position. The statement measures the success of the 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.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operation, 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.

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.

Financial Analysis

The District's basic financial statements are the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. The Statement of Net Position provides a summary of the District's assets and liabilities as of the close of business on December 31, 2020. The Statement of Changes in Fund Net Position summarizes the revenues and sources of those revenues generated during the year ended December 31, 2020 and the expenses incurred in operating the District for the year ended December 31, 2020.

Our analysis below focuses on the net position and the change in net position of the District as a whole and not the individual operations or projects.

| | <u>12/31/2020</u> | <u>12/31/2019</u> |
|--|----------------------|----------------------|
| Net Position: | | |
| Current Assets | \$ 619,380 | \$ 474,297 |
| Noncurrent Assets | 34,338,247 | 35,242,344 |
| Deferred Outflows of Resources | <u>133,501</u> | <u>145,343</u> |
| <u>Total Assets and Deferred Outflows of Resources</u> | <u>35,091,128</u> | <u>35,861,984</u> |
| Current Liabilities | 258,736 | 160,136 |
| Noncurrent Liabilities | 2,059,672 | 2,093,334 |
| Deferred Inflows of Resources | <u>58,239</u> | <u>56,290</u> |
| <u>Total Liabilities and Deferred Inflows of Resources</u> | <u>2,376,647</u> | <u>2,309,760</u> |
| - Net Position - | | |
| Net Investment in Capital Assets | 32,764,903 | 33,577,963 |
| Restricted | 206,598 | 191,090 |
| Unrestricted | <u>(257,020)</u> | <u>(216,829)</u> |
| <u>Total Net Position</u> | <u>32,714,481</u> | <u>33,552,224</u> |
| <u>Total Liabilities, Deferred Inflows of Resources and Net Position</u> | <u>\$ 35,091,128</u> | <u>\$ 35,861,984</u> |

- Increase in current assets results from an increase in receivables.
- Decrease in non-current assets is due to depreciation expense.
- Decrease in non-current liabilities due to payments on long-term debt.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

| Changes in Fund Net Position | <u>12/31/2020</u> | <u>12/31/2019</u> |
|-------------------------------------|--------------------------|--------------------------|
| Revenues | \$ 1,139,873 | \$ 1,150,850 |
| Operating Expenses: | | |
| General | 1,080,670 | 1,057,094 |
| Depreciation Expense | <u>1,115,021</u> | <u>1,118,657</u> |
| Total Operating Expenses | <u>2,195,691</u> | <u>2,175,751</u> |
| Other Income (Expenses) | <u>3,739</u> | <u>3,454</u> |
| Increase (Decrease) in Net Position | <u>\$ (1,052,079)</u> | <u>\$ (1,021,447)</u> |

- Water Revenue and Tap Fees had a decrease from prior year.
- Increase in several General Operating expenses that included water purchases, salaries, supplies, retirement and utilities.

Questions regarding this report should be directed to the District Office at (606) 666-3800.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF NET POSITION**

DECEMBER 31, 2020

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF NET POSITION
December 31, 2020

| <u>ASSETS:</u> | <u>Totals</u> |
|--|----------------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 73,616 |
| Accounts Receivable (net of allowance for doubtful accounts) | 123,962 |
| Inventory | 38,270 |
| Notes Receivable | 72,488 |
| Grants Receivable | 93,148 |
| Prepaid Expense | 11,298 |
| Restricted Assets: | |
| Cash and cash equivalents | <u>206,598</u> |
| <u>Total Current Assets</u> | <u>619,380</u> |
| Noncurrent Assets: | |
| Capital Assets: | |
| Capital Assets, not being depreciated | 320,651 |
| Capital Assets, net of accumulated depreciation | <u>34,017,596</u> |
| <u>Total Noncurrent Assets</u> | <u>34,338,247</u> |
| <u>DEFERRED OUTFLOWS:</u> | |
| Deferred outflows - pension/OPEB resources | <u>133,501</u> |
| <u>Total assets and deferred outflows of resources</u> | <u>\$ 35,091,128</u> |
| <u>LIABILITIES:</u> | |
| Current Liabilities: | |
| Accounts Payable | 145,920 |
| Accrued Payroll and Withheld Taxes Payable | 9,542 |
| Accrued Vacation Payable | 8,701 |
| Sales and Utility Taxes Payable | 2,694 |
| Current Portion of Bond/Lease Obligations | <u>91,879</u> |
| <u>Total Current Liabilities</u> | <u>258,736</u> |
| Long-term Liabilities: | |
| Net Pension/OPEB Liability | 578,207 |
| Bond/Lease Obligations | 1,573,344 |
| Less: Current portion | <u>(91,879)</u> |
| <u>Total Long-Term Liabilities</u> | <u>2,059,672</u> |
| <u>Total Liabilities</u> | <u>2,318,408</u> |
| <u>DEFERRED INFLOWS:</u> | |
| Deferred inflows - pension/OPEB related | <u>58,239</u> |
| <u>NET POSITION:</u> | |
| Net Investment in Capital Assets | 32,764,903 |
| Restricted | 206,598 |
| Unrestricted(deficit) | <u>(257,020)</u> |
| <u>Total Net Position</u> | <u>32,714,481</u> |
| <u>Total liabilities, deferred inflows of resources and net position</u> | <u>\$35,091,128</u> |

The accompanying notes are an integral part of this financial statement.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

FOR THE YEAR ENDED DECEMBER 31, 2020

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020**

| | |
|--|---------------------|
| <u>Operating Revenues:</u> | |
| Water Sales | \$ 1,107,245 |
| Tap Fees | <u>32,628</u> |
| <u>Total Operating Revenues</u> | <u>1,139,873</u> |
| <u>Operating Expenses:</u> | |
| Cost of Goods Sold | 347,133 |
| Salaries | 200,694 |
| Payroll Taxes | 14,397 |
| Retirement Expense | 108,172 |
| Repairs and Maintenance | 8,547 |
| Auto and Truck Expense | 33,148 |
| Dues and Subscriptions | 1,879 |
| Insurance | 79,509 |
| Professional Fees | 18,380 |
| Office Expense | 7,209 |
| Postage | 8,130 |
| Rents | 4,200 |
| Supplies | 65,241 |
| Telephone | 6,474 |
| Uniforms | 585 |
| Utilities | 105,908 |
| Other Taxes | 34,430 |
| Miscellaneous Operating Expenses | 223 |
| Contract Labor | 11,890 |
| Interest Expense | 24,521 |
| Depreciation Expense | <u>1,115,021</u> |
| <u>Total Operating Expense</u> | <u>2,195,691</u> |
| <u>Net Operating Income (Loss)</u> | <u>(1,055,818)</u> |
| <u>Non-Operating Revenues (Expenses):</u> | |
| Interest Income | 439 |
| Other Income | <u>3,300</u> |
| <u>Total Non-Operating Revenues (Expenses)</u> | <u>3,739</u> |
| Net Income (Loss) | (1,052,079) |
| Net Position, Beginning of Year, Restated | 33,555,636 |
| Add: Capital Contribution | <u>210,924</u> |
| Net Position, End of Year | <u>\$32,714,481</u> |

The accompanying notes are an integral part of this financial statement.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2020

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020**

| | |
|---|-----------------------|
| <u>Cash Flows from Operating Activities:</u> | |
| Receipts from Customers | \$ 1,127,670 |
| Payments to Suppliers | (867,729) |
| Payments to Employees | <u>(141,256)</u> |
| <u>Net Cash Provided (Used) by Operating Activities</u> | <u>118,685</u> |
| <u>Cash Flows From Capital and Related Financing Activities:</u> | |
| Capital Contributions | 210,924 |
| Nonoperating - income/(loss) | 3,300 |
| Purchase of Capital Assets | (210,924) |
| Payment on Long-term Debt | <u>(91,037)</u> |
| <u>Net Cash Provided (Used) for Capital and Related Financing Activities</u> | <u>(87,737)</u> |
| <u>Cash Flows from Investing Activities:</u> | |
| Interest revenue | <u>439</u> |
| Net Increase (Decrease) in Cash | 31,387 |
| Cash and restricted cash, Beginning of Year | <u>248,827</u> |
| Cash and restricted cash, End of Year | <u><u>280,214</u></u> |
| <u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u> | |
| Operating Income (Loss) | (1,055,818) |
| Adjustments to reconcile operating net cash provided by operating activities: | |
| Depreciation | 1,115,021 |
| Restatement of net position | 3,412 |
| Changes in assets and liabilities | |
| (Increase) decrease in accounts receivable | (306) |
| (Increase) decrease in construction related receivables | (81,779) |
| (Increase) decrease in notes receivable | (11,897) |
| (Increase) decrease in inventories | (8,416) |
| (Increase) decrease in prepaid insurance | (11,298) |
| (Increase) decrease in deferred outflows - pension/OPEB resources | 11,842 |
| Increase (decrease) in accounts payable | 99,026 |
| Increase (decrease) in accrued payroll and withheld taxes payable | (3,609) |
| Increase (decrease) in accrued vacation payable | 2,023 |
| Increase (decrease) in sales and utility taxes payable | 317 |
| Increase (decrease) in deferred inflows - pension/OPEB related | 1,949 |
| Increase (decrease) in net pension/OPEB liability | <u>58,218</u> |
| <u>Net Cash Provided (Used) by Operations</u> | <u>\$ 118,685</u> |

The accompanying notes are an integral part of this financial statement.

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TO FINANCIAL STATEMENTS**

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BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Breathitt County Water District Board of Commissioners (the "Commission") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

B. Reporting Entity

The Breathitt County Water District was formed pursuant to KRS 74.010 et. seq. by the formal vote of the Breathitt County Fiscal Court on August 28, 2003 adopting ordinance 8-21-23A. The governing body of the Breathitt County Water District is a Board of Commissioners that is appointed pursuant to KRS 74.020.

The Commission shall be governed by and have all the powers listed in KRS 74.010 et. seq. and have full and complete supervision, management, and control of the sources of supply of water as provided in the ordinances of resolutions for acquiring and operating them and in their maintenance, operation, and extension.

The accompanying financial statements comply with the provisions of GASB Statement 14, the Financial Reporting Entity, in that the financial statements include all organizations, activities, and functions for which the Commission is financially accountable. This report includes all activities considered by management to be part of the Commission by virtue of Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such, that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and whether it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent upon it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government a) is entitled to the organization's resources, b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or c) is obligated in some manner for the debt of the organization. Based on the application of these criteria, the Commission has no component units.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation

The Commission's basic financial statements consist of a statement of net position, a statement of revenue, expenses and changes in fund net position, and a statement of cash flows.

D. Fund Accounting

The Commission uses the proprietary fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Commission uses the proprietary category for its programs.

E. Proprietary Fund Types

Proprietary funds are used to account for the Commission's ongoing activities, which are similar to those found in the private sector. The following is the proprietary fund type:

Enterprise Fund – This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

F. Measurement Focus/Basis of Accounting

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period incurred. Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

G. Allowance for Doubtful Accounts

Breathitt County Water District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimate of probable losses. An allowance expense in the amount of \$202,418 was recognized in the financial statements for the year ended December 31, 2020. All receivables are considered short term and collectible in less than one year.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Description of Program

The Commission is designed to construct waterlines, and supporting infrastructure for those waterlines, that will provide clean water to the citizens of Breathitt County.

I. Capital Assets

Capital assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of three years to forty years. Expenditures for repairs and maintenance are charged directly to expenses as they are incurred. Expenditures determined to represent additions or betterments and have a cost in excess of \$500 are capitalized.

J. Net Position

GASB 63, implemented for fiscal year 2013, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets" consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

K. Operating Revenues and Expenses

Operating revenues and expenses are those revenues that are generated directly from the primary activities of the proprietary fund and expenses incurred for the day to day operation. For the Commission, operating revenues are water sales and tap-on fees and other miscellaneous revenues.

L. Capital Contributions

This represents contributions made available from a variety of sources including but not limited to Community Development Block Grants, Kentucky Infrastructure Authority Grants, Coal Severance Tax Funds, Abandoned Mine Lands Grants, U.S. Department of Agriculture Grants, and contributions from the Breathitt County Fiscal Court.

M. Budgetary Accounting

The Treasurer/Superintendent shall prepare and submit to the Commission's Budget Committee proposals for the annual Commission budget based on a Calendar Year. The proposed budget will be reviewed and passed to the Commission for tentative adoption. Following this action, the budget will be submitted to the Kentucky Department for Local Government in accordance with KRS 65A.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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 revenue and expense during the reporting period. Actual results could differ from those estimates.

O. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the Commission to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for the future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

P. Accounting for Pensions and Other Post-Employment Benefits (OPEB)

GASB Statements Nos. 67 and 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement 27 and GASB Statement No. 71 improves accounting and financial reporting by state and local governments for pensions and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, improves information provided by state and local governmental employers about financial support for pensions and OPEB that is provided by other entities. These Statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions/OPEB with regard to providing decisions-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. These Statements were effective for fiscal years beginning after June 15, 2014 for pension reporting and fiscal year beginning after June 15, 2017 for OPEB, each have been implemented by the Breathitt County Water District.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Recently Issued Accounting Pronouncements

The District did not implement any new accounting pronouncements during the year ended December 31, 2020.

The District will adopt the following new accounting pronouncements in future years:

- Statement No. 87—Leases, effective for the District’s fiscal year ending December 31, 2020 was postponed for eighteen months as a result of the coronavirus pandemic.
- GASB Statement No. 89—Accounting for Interest Cost Incurred before the End of a Construction Period, effective for the District’s fiscal year ending December 31, 2020 was postponed one year as a result of the coronavirus pandemic.

The impact of these pronouncements on the District’s financial statements has not been determined.

Note 2. Deposits and Investments

The Commission maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and (c) an official record of the depository institution. These requirements were met.

Custodial credit risk is the risk that in the event of a depository institution failure, the District’s deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Breathitt County Water District does not have any investments other than its interest bearing checking accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District’s investments in a single issuer. All of the District’s cash at December 31, 2020 is held at Citizens Bank & Trust of Jackson. Foreign currency risk is the risk of changes in exchange rates effecting foreign investments. The District does not hold any foreign investments.

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020
 (Continued)

Note 2. Deposits and Investments (Continued)

Cash consisted of the following at December 31, 2020:

| | <u>Book</u> <u>Balance</u> | <u>Bank</u> <u>Balance</u> | <u>Interest</u> <u>Rate</u> |
|---------------------------|-------------------------------|-------------------------------|--------------------------------|
| Sinking Fund | \$ 83,896 | \$ 83,896 | 0.05% |
| Short Lived Assets | 58,086 | 58,086 | 0.05% |
| Reserve Account | 63,726 | 63,726 | 0.05% |
| Operations & Maintenance | 42,878 | 49,812 | 0.05% |
| Repair & Maintenance | 23,566 | 24,225 | 0.05% |
| AML Duckhollow | 0 | 0 | 0.00% |
| Frozen Phase II | 136 | 136 | 0.00% |
| Hwy 315/28 Project | 310 | 310 | 0.00% |
| 2436 Airport Rd Project | 16 | 16 | 0.00% |
| 30 W Waterline Relocation | 3 | 3 | 0.00% |
| Frozen Phase IV | 75 | 75 | 0.00% |
| BCWD Water Line Extension | 351 | 61,411 | 0.00% |
| Water Assistance Fund | <u>7,172</u> | <u>8,673</u> | 0.10% |
| <u>Totals</u> | <u>\$ 280,214</u> | <u>\$ 350,369</u> | |

Note 3. Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

| <u>Primary Government</u> | <u>12/31/2019</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>12/31/2020</u> <u>Balance</u> |
|--|-------------------------------------|---------------------|-------------------|-------------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 47,581 | \$ - | \$ - | \$ 47,581 |
| Construction in Progress | <u>62,146</u> | <u>210,924</u> | <u>-</u> | <u>273,070</u> |
| Total Capital Assets Not Being Depreciated | <u>109,727</u> | <u>210,924</u> | <u>-</u> | <u>320,651</u> |
| Capital Assets Being Depreciated: | | | | |
| Vehicles | 159,285 | - | - | 159,285 |
| Office Equipment | 11,421 | - | - | 11,421 |
| Other Equipment | 114,082 | - | - | 114,082 |
| Water Improvements | <u>44,240,790</u> | <u>-</u> | <u>-</u> | <u>44,240,790</u> |
| Total Capital Assets Being Depreciated: | <u>44,525,578</u> | <u>-</u> | <u>-</u> | <u>44,525,578</u> |
| Less Accumulated Depreciation For: | | | | |
| Vehicles | (155,373) | (3,913) | - | (159,286) |
| Office Equipment | (8,596) | (1,364) | - | (9,960) |
| Other Equipment | (117,402) | (2,868) | 11,515 | (108,755) |
| Water Improvements | <u>(9,111,590)</u> | <u>(1,118,391)</u> | <u>-</u> | <u>(10,229,981)</u> |
| Total Accumulated Depreciation | <u>(9,392,961)</u> | <u>(1,126,536)</u> | <u>11,515</u> | <u>(10,507,982)</u> |
| Total Capital Assets Being Depreciated, Net | <u>35,132,617</u> | <u>(1,126,536)</u> | <u>11,515</u> | <u>34,017,596</u> |
| Total Capital Assets, Net | <u>\$ 35,242,344</u> | <u>\$ (915,612)</u> | <u>\$ 11,515</u> | <u>\$ 34,338,247</u> |

Total depreciation expense for the year ended December 31, 2020 was \$1,115,021.

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020
 (Continued)

Note 4. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended December 31, 2020:

| | Balance | | | Balance | | Due Within |
|-----------------------------|---------------------|------------------|--------------------|---------------------|------------------|------------|
| | <u>12/31/2019</u> | <u>Additions</u> | <u>Deductions</u> | <u>12/31/2019</u> | <u>One Year</u> | |
| General obligation bonds | \$ 296,000 | \$ - | \$ (7,000) | \$ 289,000 | \$ 7,000 | |
| Notes from direct borrowing | <u>1,368,381</u> | <u>-</u> | <u>(84,037)</u> | <u>1,284,344</u> | <u>84,879</u> | |
| | <u>\$ 1,664,381</u> | <u>\$ -</u> | <u>\$ (91,037)</u> | <u>\$ 1,573,344</u> | <u>\$ 91,879</u> | |

The District's outstanding notes from direct borrowing contains provision that in the event of default, outstanding balances become immediately due, with interest rate increases and accrued fees.

If the District defaults on the Revenue Bonds, the lenders may assign a receiver to administer on behalf of the District to charge and collect rates sufficient to provide for payment of operating and maintenance expenses and for the payment of principal and interest on the outstanding balances.

Principal and interest requirements to retire the District's long-term obligations are as follows:

| | <u>Notes from direct</u> | | <u>Bonds</u> | |
|-----------|--------------------------|-------------------|-------------------|-------------------|
| | <u>borrowing</u> | | <u>Principal</u> | <u>Interest</u> |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2021 | \$ 84,879 | \$ 15,469 | \$ 7,000 | \$ 7,574 |
| 2022 | 85,730 | 14,438 | 7,000 | 7,390 |
| 2023 | 86,590 | 13,397 | 7,500 | 7,193 |
| 2024 | 87,458 | 12,347 | 7,500 | 6,996 |
| 2025 | 88,335 | 11,285 | 8,000 | 6,799 |
| 2026-2030 | 447,849 | 40,123 | 42,500 | 30,767 |
| 2031-2035 | 403,503 | 13,976 | 48,000 | 24,914 |
| 2036-2040 | - | - | 55,500 | 18,260 |
| 2041-2045 | - | - | 63,500 | 10,647 |
| 2046-2048 | <u>-</u> | <u>-</u> | <u>42,500</u> | <u>2,311</u> |
| | <u>\$ 1,284,344</u> | <u>\$ 121,035</u> | <u>\$ 289,000</u> | <u>\$ 122,851</u> |

A. Waterworks Revenue Bonds, Series 2009

On September 24, 2009, the Breathitt County Water District issued \$350,000 in Waterworks Revenue Bonds, Series 2009. The bonds were sold at par to the U.S. Department of Agriculture, acting through Rural Development. The proceeds from these bonds were used for the construction of water lines.

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
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 December 31, 2020
 (Continued)

Note 4. Long-Term Debt (Continued)

The bonds are scheduled to mature in 2048 and carry an interest rate of 2.625%. Annual interest payments are required with annual principal payments beginning in 2011. As of December 31, 2020, the principal balance outstanding on these bonds was \$289,000.

B. Kentucky Infrastructure Authority

In December 2009 the Breathitt County Water District requested \$572,000 from the Kentucky Infrastructure Authority's Drinking Water State Revolving Fund Loan Program. During 2010 the District received the funds and made the first payment on the loan balance. The loan was funded by the American Recovery and Reinvestment Act. As part of the agreement \$309,452 was forgiven. Semi-annual principal and interest payments are due in June and December of each year. The debt is scheduled to mature in 2030 and carry an interest rate of 1%. The agreement calls for the District to deposit \$1,000 per year into a reserve account until a balance of \$10,000 is reached.

C. Kentucky Infrastructure Authority

In April 2012 the Breathitt County Water District began drawing down funds from the Kentucky Infrastructure Authority's (KIA) Drinking Water State Revolving Fund Loan Program in relation to waterline projects. Total loan approved for the project is \$2,500,000. As part of the agreement \$1,000,000 will be forgiven. Interest payments began six months after the first draw of funds. Full principal and interest payments started in June 2016. Semi-annual principal and interest payments will be due in June and December of each year. The debt has a term of 20 years and carries an interest rate of 1%. The agreement calls for the District to deposit \$6,250 per year into a reserve account until a balance of \$62,500 is reached.

D. Changes in long-term debt

Changes in long-term debt for the District are as follows:

| <u>Description</u> | <u>Collateral</u> | <u>Rate</u> | <u>12/31/2019</u> | | | <u>12/31/2020</u> | | <u>Current</u> <u>Portion</u> |
|-----------------------------------|-------------------|-------------|---------------------|------------------|--------------------|---------------------|------------------|----------------------------------|
| | | | <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> | | |
| Rural Development Revenue Bonds | Revenue | 2.625% | \$ 296,000 | \$ - | \$ (7,000) | \$ 289,000 | \$ 7,000 | |
| Kentucky Infrastructure Authority | Revenue | 1.000% | 1,223,450 | - | (70,879) | 1,152,571 | 71,589 | |
| Kentucky Infrastructure Authority | Revenue | 1.000% | 144,931 | - | (13,158) | 131,773 | 13,290 | |
| Total | | | <u>\$ 1,664,381</u> | <u>\$ -</u> | <u>\$ (91,037)</u> | <u>\$ 1,573,344</u> | <u>\$ 91,879</u> | |

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020
 (Continued)

Note 5. Employee Retirement System

Plan Description: Substantially all full-time employees of the District participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits Provided - Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions - Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a District contribution of 24.06% of the employee's total compensation subject to contributions.

At December 31, 2020, the District reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used was based on an actuarial valuation as of June 30, 2019. At June 30, 2019 the District's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2018 was .006635% for nonhazardous.

| | |
|--|-------------------|
| District's proportionate share of the net CERS nonhazardous pension liability | <u>\$ 466,643</u> |
|--|-------------------|

For the year ended December 31, 2020, the District's financial statements reflect CERS pension expense of \$41,167 for nonhazardous. For the year ended December 31, 2020 the District recognized deferred outflows of resources for nonhazardous of \$90,444 and deferred inflows of resources for nonhazardous of \$18,452. These contributions will be recognized as a reduction of the net pension liability in subsequent fiscal years.

The District previously reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$71,992.

| <u>Year</u> | Nonhazardous <u>Total</u> |
|-------------|------------------------------|
| 2021 | \$ 48,556 |
| 2022 | 17,900 |
| 2023 | 5,002 |
| 2024 | 534 |
| 2025 | - |
| Thereafter | - |
| | <u>\$ 71,992</u> |

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020
 (Continued)

Note 5. Employee Retirement System (Continued)

| | <u>Nonhazardous</u> | |
|---|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ 11,915 | \$ 1,972 |
| Changes of assumptions | 47,230 | - |
| Net difference between projected and actual earnings on pension plan investments | 8,958 | 16,480 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 22,341 | - |
| District contributions subsequent to the measurement date | - | - |
| Total | <u>\$ 90,444</u> | <u>\$ 18,452</u> |

Actuarial Methods and Assumptions - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2019, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2017
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 26 years
- Asset Valuation method – 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
- Payroll growth rate – 2%
- Inflation – 2.3%
- Salary increases, 3.30% to 11.55%, varies by service for non-hazardous
- Investment rate of return – 6.25%
- RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020
 (Continued)

Note 5. Employee Retirement System (Continued)

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

| Non-hazardous and Hazardous | Target | Long-term Expected Nominal |
|--------------------------------|-------------------|----------------------------------|
| <u>Asset Class</u> | <u>Allocation</u> | <u>Return</u> |
| Growth | 62.50% | |
| US Equity | 18.75% | 4.30% |
| Non US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit/High Yield | 15.00% | 2.60% |
| Liquidity | 14.50% | |
| Core Bonds | 13.50% | 1.35% |
| Cash | 1.00% | 0.20% |
| Diversifying Strategies | 23.00% | |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | 15.00% | 4.10% |

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

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2018 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
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 December 31, 2020
 (Continued)

Note 5. Employee Retirement System (Continued)

The following presents the District's proportionate share of net pension liability calculated using the discount rate of 6.25% as well as the District's share if calculated using a rate 1% higher and 1% lower:

| | 1% Decrease <u>(5.25%)</u> | Current Discount Rate <u>(6.25%)</u> | 1% Increase <u>(7.25%)</u> |
|---|----------------------------------|--|----------------------------------|
| District's proportionate share of net nonhazardous pension liability | \$ 583,637 | \$ 466,643 | \$ 369,128 |

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payable to the pension plan by the District at December 31, 2020 was \$4,201.

Note 6. OPEB Plans

General Information about the OPEB Plan

Plan description – Substantially all full-time employees of the District are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS)—a cost-sharing multiple-employer defined benefit OPEB plan. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (800)928-4646 or at <https://kyret.ky.gov>.

The State reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the KRS Insurance Fund. The following information is about the KRS plans:

Medical Insurance Plan

Plan description – In addition to the OPEB benefits described above, KRS provides post-employment healthcare benefits to eligible members and dependents. The KRS Insurance benefit is a cost-sharing multiple employer defined benefit plan.

Benefits provided – Benefits under the plan will vary based on years of service and other factors as fully described in the plan documents.

Contributions – In order to fund the post-retirement healthcare benefit, participants hired on or after September 1, 2008 contribute 1% of total compensation subject to contribution for non-hazardous and hazardous duty positions. Also, the premiums collected from retirees as described in the plan documents and investment interest help meet the medical expenses of the plan.

BREATHITT COUNTY WATER DISTRICT
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 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020
 (Continued)

Note 6. OPEB Plans (Continued)

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

At December 31, 2020, the District reported a liability of \$111,564 for its proportionate share of the collective net CERS non-hazardous 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 based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the District's proportion was .006633% for non-hazardous employees. The previous year proportion was 0.00661%.

The amount recognized by the District as its proportionate share of the OPEB liability was as follows:

| | |
|--|-------------------|
| District's proportionate share of the net CERS non-hazardous OPEB liability | <u>\$ 111,564</u> |
|--|-------------------|

For the year ended December 31, 2020, the District recognized OPEB expense of \$14,341. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

| | <u>Non-hazardous</u> | |
|---|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ - | \$ 33,661 |
| Changes of assumptions | 33,013 | 221 |
| Net difference between projected and actual earnings on plan investments | 735 | 5,690 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 9,309 | 215 |
| District contributions subsequent to the measurement date | - | - |
| Total | <u>\$ 43,057</u> | <u>\$ 39,787</u> |

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020
 (Continued)

Note 6. OPEB Plans (Continued)

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:

| <u>Year</u> | Non-hazardous <u>Total</u> |
|-------------|-------------------------------|
| 2021 | \$ 1,275 |
| 2022 | 1,275 |
| 2023 | 2,850 |
| 2024 | (172) |
| 2025 | (1,568) |
| Thereafter | <u>(389)</u> |
| | <u>\$ 3,271</u> |

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

| | |
|-------------------------------|---|
| Valuation date | June 30, 2017 |
| Amortization method | Level percent of payroll, closed |
| Remaining amortization period | 26 years, closed |
| Payroll growth rate | 2.00% |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation rate | 2.30% |
| Salary increases | 3.30% to 11.55%, varies by service for non-hazardous |
| Investment return | 6.25% |
| Healthcare cost trend rates | |
| Under 65 | Initial trend starting at 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years |
| Ages 65 and Older | Initial trend starting at 5.10% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years |

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with projection scale BB and set back one year for females. The RP-2000 Disabled Mortality Table set back four years for males is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

BREATHITT COUNTY WATER DISTRICT
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 (Continued)

Note 6. OPEB Plans (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined by weighting the expected future real rates of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRS's investment consultant, are summarized in the following table:

| Non-hazardous and Hazardous <u>Asset Class</u> | Long-term Expected | |
|---|------------------------------|---------------------------|
| | <u>Target Allocation</u> | <u>Nominal Return</u> |
| Growth | 62.50% | |
| US Equity | 18.75% | 4.30% |
| Non US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit/High Yield | 15.00% | 2.60% |
| Liquidity | 14.50% | |
| Core Bonds | 13.50% | 1.35% |
| Cash | 1.00% | 0.20% |
| Diversifying Strategies | 23.00% | |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | 15.00% | 4.10% |

Discount rate - The discount rate used to measure the total OPEB liability was 5.68% for non-hazardous personnel. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.68% for non-hazardous personnel, 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, 4.68% for non-hazardous personnel, or 1-percentage-point higher, 6.68% for non-hazardous personnel than the current rate:

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 NOTES TO FINANCIAL STATEMENTS
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 (Continued)

Note 6. OPEB Plans (Continued)

| | 1% Decrease (4.68%) | Current Discount Rate (5.68%) | 1% Increase (6.68%) |
|---|---------------------------|-------------------------------------|---------------------------|
| District's proportionate share of net non-hazardous OPEB liability | \$ 149,450 | \$ 111,564 | \$ 80,349 |

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

| | 1% <u>Decrease</u> | Current Healthcare <u>Cost Trend Rate</u> | 1% <u>Increase</u> |
|---|-----------------------|--|-----------------------|
| District's proportionate share of net non-hazardous OPEB liability | \$ 82,971 | \$ 111,564 | \$ 146,237 |

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 7. Insurance

For the year ended December 31, 2020, the Commission was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Contingencies

The District receives funding from local, state, and federal government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2020
(Continued)

Note 9. Commitments

The District approved renting a building from Jackson/Breathitt Industrial for \$300 per month plus utilities and maintenance. As of May 19, 2021 no lease agreement has been signed.

Note 10. Subsequent Events

The District continues to monitor the direct and indirect effects of COVID-19, which has led to closings of non-essential services and limitations for public assemblies. While the immediate and long-term financial impact cannot be reasonably estimated, management anticipates preparing amendments to future budget projections reflecting any significant changes in revenues or expenditures affection the District as a result of the coronavirus.

Note 11. Restatement of Net Position

The District beginning net position was increased by \$3,412 to reflect voided checks wrote in prior years.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

For The Year Ended December 31, 2020

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

For The Year Ended December 31, 2020

Employer's Proportionate Share of Net Pension Liability

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | CERS | CERS | CERS | CERS | CERS | CERS |
| | <u>Nonhazardous</u> | <u>Nonhazardous</u> | <u>Nonhazardous</u> | <u>Nonhazardous</u> | <u>Nonhazardous</u> | <u>Nonhazardous</u> |
| Employer's proportion of the net pension liability | 0.006635% | 0.006611% | 0.00576% | 0.00521% | 0.00622% | 0.00617% |
| Employer's proportionate share of the net pension liability | \$ 466,643 | \$ 402,630 | \$ 337,326 | \$ 256,687 | \$ 267,500 | \$ 200,000 |
| Employer's covered employee payroll | \$ 171,101 | \$ 166,024 | \$ 167,724 | \$ 163,404 | \$ 122,824 | \$ 132,927 |
| Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll | 273% | 243% | 201% | 157% | 218% | 150% |
| Plan fiduciary net position as a percentage of the total pension liability | 50.45% | 53.54% | 53.30% | 55.50% | 59.97% | 62.6% |

Employer's Contributions

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | CERS | CERS | CERS | CERS | CERS | CERS |
| | <u>Nonhazardous</u> | <u>Nonhazardous</u> | <u>Nonhazardous</u> | <u>Nonhazardous</u> | <u>Nonhazardous</u> | <u>Nonhazardous</u> |
| Contractually required contribution | \$ 27,147 | \$ 23,724 | \$ 19,575 | \$ 14,812 | \$ 18,576 | \$ 16,000 |
| Contributions in relation to the contractually required contribution | 27,147 | 23,724 | 19,575 | 15,446 | 18,508 | 16,000 |
| Contribution deficiency (excess) | - | - | - | (634) | 68 | - |
| District's covered employee payroll | \$ 171,101 | \$ 166,024 | \$ 167,724 | \$ 163,404 | \$ 122,824 | \$ 148,094 |
| Contributions as a percentage of covered employee payroll | 15.87% | 14.29% | 11.67% | 9.45% | 15.07% | 10.80% |

Change of benefit terms - None

Changes of assumptions - Change in 2018, Non-hazardous \$39,349.

Until a full 10-year trend is compiled, the District will present information for years available.

Ultimately, ten years of data will be presented.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

For The Year Ended December 31, 2020

Employer's Proportionate Share of Net OPEB Liability

| | <u>2020</u> OPEB <u>Nonhazardous</u> | <u>2019</u> OPEB <u>Nonhazardous</u> | <u>2018</u> OPEB <u>Nonhazardous</u> |
|--|--|--|--|
| Employer's proportion of the net OPEB liability | 0.006633% | 0.00661% | 0.00576% |
| Employer's proportionate share of the net OPEB liability | \$ 111,564 | \$ 117,359 | \$ 115,856 |
| Employer's covered employee payroll | \$ 171,101 | \$ 166,024 | \$ 167,724 |
| Employer's proportionate share of the net OPEB liability as a percentage of its covered employee payroll | 65% | 71% | 69% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 60.44% | 57.62% | 52.40% |

Employer's Contributions

| | <u>2020</u> OPEB <u>Nonhazardous</u> | <u>2019</u> OPEB <u>Nonhazardous</u> | <u>2018</u> OPEB <u>Nonhazardous</u> |
|--|--|--|--|
| Contractually required contribution | \$ 8,803 | \$ 7,701 | \$ 6,637 |
| Contributions in relation to the contractually required contribution | 8,803 | 7,701 | 6,637 |
| Contribution deficiency (excess) | - | - | - |
| District's covered employee payroll | \$ 171,101 | \$ 166,024 | \$ 167,724 |
| Contributions as a percentage of covered employee payroll | 5.14% | 4.64% | 3.96% |

Until a full 10-year trend is compiled, the District will present information for years available. Ultimately, ten years of data will be presented.

**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***

Chris Gooch

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

To the Board of Commissioners
Breathitt County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Breathitt County Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Breathitt County Water District's basic financial statements, and have issued our report thereon dated May 19, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Breathitt 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 the Breathitt County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Breathitt 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 the Breathitt 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 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.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

May 19, 2021