

HENDERSON WATER UTILITY

***FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
Years Ended June 30, 2020 and 2019***

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

Water and Sewer Commission of the City of Henderson
Henderson Water Utility

Report on the Financial Statements

We have audited the accompanying financial statements of the Henderson Water Utility (Utility), a component unit of the City of Henderson, Kentucky, as of and for the years ended June 30, 2020 and 2019, and the related notes to the 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 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Henderson Water Utility, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11, and the Pension and Other Postemployment Benefits (OPEB) Schedules on pages 42 through 46, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues, Expenses, and Changes in Net Position by Division for years ended June 30, 2020 and 2019, on pages 47 and 48 are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedule of Revenues, Expenses, and Changes in Net Position by Division for years ended June 30, 2020 and 2019, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenses, and Changes in Net Position by Division for years ended June 30, 2020 and 2019, are fairly stated in all material respects, in relation to the 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 November 17, 2020, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utility's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Owensboro, Kentucky
November 17, 2020

 Ring Hansen CPA, PSC

Management's Discussion and Analysis

As management of the Henderson Water Utility (Utility), we offer readers of the Utility's financial statement this overview and analysis of the financial activities of the Utility for the fiscal year ended June 30, 2020. The Utility is in the business of providing water, wastewater and stormwater services for the City of Henderson, Kentucky as well as parts of Henderson, Webster and McLean counties. It is our intent that these comments provide all parties interested in the Utility's financial condition, especially the citizens of Henderson, a better understanding of the Utility's operations and financial condition. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Utility's financial statements, which begin on page 12 of this report.

Financial Highlights

- The Utility's total assets increased by 0.6% from \$96,345,983 at June 30, 2019 to \$96,943,502 at June 30, 2020 primarily due to the increase in cash offset by decrease in capital assets, net of depreciation.
- Operating revenues increased \$2,257,101 or 10.2% from \$22,089,760 to \$24,346,861 due primarily to the fixed wastewater charges (that went into effect in July 2019) and changes in contractual customer rates offset by overall decreased usage (overall down 1.82% across all sectors).
- Operating expenses increased by \$1,319,175 or 6.9% from \$19,172,831 to \$20,492,006 due primarily to higher utility and sludge disposal costs, as well as increases in personnel related expenses and depreciation. This increase in expense was outpaced by the change in operating revenues resulting in a \$937,926 increase in operating income compared to the year ago.
- The Utility produced a positive cash flow of \$1,270,373 for the year. The Utility generated approximately \$7.4 million in cash from operations, and \$332,000 from investments, proceeds from asset sales and other sources. The sources of cash exceeded capital expenditures of approximately \$2.8 million, debt-related payments of approximately \$3.2 million and the distribution to the City of \$450,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. These basic financial statements are comprised of four components: 1) the financial statements, 2) notes to the financial statements, 3) supplemental information and 4) required supplementary information.

The Utility is a business-type activity and the Utility's financial statements include: the *Statement of Net Position*, the *Statement of Revenues, Expenses and Changes in Net Position* and the *Statement of Cash Flows*. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) and can be found on pages 12-16 of this report.

The *Statement of Net Position* presents information on all of the Utility's assets, deferred outflows of resources, liabilities and deferred inflows, with the difference reported as net position. Net position is an important measure of the Utility's overall financial health and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Utility's creditors (liabilities). It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information on how the Utility's net position changed, including operating revenues, operating expenses, non-operating income and expenses, capital contributions and any other changes in net position, during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the company has successfully recovered all of its costs through water and wastewater charges, has earned a profit, and has maintained credit worthiness.

The *Statement of Cash Flows* presents information showing how the Utility's cash and cash equivalents position changed during the fiscal year. The primary purpose of this statement is to provide information about the Utility's cash receipts, cash payments, and net changes in cash resulting from operations, investing, capital and financing activities and provides information on the sources and uses of cash and the changes in cash balances during the year.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 17-41.

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Utility's funding of its obligation to provide pension benefits to its employees. The required supplementary information can be found on pages 42-46 of this report. Additional, not required, supplementary information reporting revenues, expenses and changes in net assets by division can be found on pages 47-48.

Condensed Comparative Financial Statements

Statement of Net Position

	(in thousands)			
	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Assets:				
Current Assets	\$ 14,238	\$ 12,565	\$ 1,673	13.3%
Non-Current Assets	169	201	(32)	-15.9%
Capital Assets	82,536	83,580	(1,044)	-1.2%
Total Assets	<u>96,943</u>	<u>96,346</u>	<u>597</u>	<u>0.6%</u>
Deferred Outflows of Resources	<u>3,253</u>	<u>3,328</u>	<u>(75)</u>	<u>-2.3%</u>
Liabilities:				
Current Liabilities	3,960	4,698	(738)	-15.7%
Long-term Liabilities	<u>42,384</u>	<u>44,177</u>	<u>(1,793)</u>	<u>-4.1%</u>
Total Liabilities	<u>46,344</u>	<u>48,875</u>	<u>(2,531)</u>	<u>-5.2%</u>
Deferred Inflows of Resources	<u>1,630</u>	<u>1,363</u>	<u>267</u>	<u>19.6%</u>
Net Position:				
Invested in capital assets, net of related debt	51,766	50,311	1,455	2.9%
Unrestricted	<u>456</u>	<u>(875)</u>	<u>1,331</u>	<u>-152.1%</u>
Total Net Position	<u>\$ 52,222</u>	<u>\$ 49,436</u>	<u>\$ 2,786</u>	<u>5.6%</u>

Summary

The Utility's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$52.2 million at fiscal year-end, an increase of \$2,786,473 or 5.6% from the prior year. The increase in net position was driven by the improved operating income from overall operations.

Assets and Deferred Outflows of Resources

Total assets increased by \$597,519 or 0.6% from the prior period. The increase in current assets were primarily due to an increase in cash. The Utility's capital expenditures for the fiscal year were approximately \$2.8 million compared to annual depreciation expense of \$3.8 million. Deferred outflows of resources decreased approximately \$75,000 and was driven by pension and OPEB related adjustments from the Utility's participation in County Employee Retirement System (CERS).

Liabilities and Deferred Inflows of Resources

Total liabilities decreased \$2,530,835 or 5.2% due primarily to decreases in current liabilities related to accrued contractual expenses and scheduled debt payments. The Utility's deferred inflows of resources related to pension and OPEB related adjusts associated with the Utility's CERS participation

increased approximately \$267,000, driven by pension and OPEB related adjustments from the Utility's participation in CERS.

Net Position

There are two components of the Utility's net position. The largest portion, Invested in Capital Assets, Net of Related Debt, represents the Utility's investment in capital assets, net of any related debt (debt used to finance the purchase of capital assets) and reflects the Utility's investment in property, plant and equipment. The remaining Unrestricted Net Position is available to the Utility to meet its ongoing obligations. The Utility's overall net position is simply a function of its assets and deferred outflows of resources minus its liabilities and deferred inflows of resources. During the period, the Utility's net position increased as previously noted.

Statement of Revenues, Expenses and Changes in Net Position

(in thousands)				
	6/30/2020	6/30/2019	Increase (Decrease)	Percent Change
Operating revenues	\$ 24,347	\$ 22,090	\$ 2,257	10.2%
Operating expenses	20,492	19,173	1,319	6.9%
Operating income	3,855	2,917	938	32.2%
Net non-operating activity	(619)	23	(642)	2791.3%
Change in net position before contributions and transfers	3,236	2,940	296	10.1%
Distributions to City	(450)	(400)	(50)	12.5%
Capital contributions	-	1,071	(1,071)	-100.0%
Change in net position	2,786	3,611	(825)	-22.8%
Net position at beginning of year	49,436	45,825	3,611	7.9%
Net position at end of year	\$ 52,222	\$ 49,436	\$ 2,786	5.6%

Summary

The Utility's operating revenues increased 10.2% and operating expenses increased 6.9% resulting in an increase in operating income of 32.2% or \$937,926. Non-operating activity (net) decreased by approximately \$641,040 due to decreases in investment income and no grant revenues received in current year. The Utility received no capital contributions in current year compared to \$1,071,110, in prior year, which consisted of fixed assets of \$750,000 and cash of \$321,110. Overall change in net position decreased \$824,224 compared to a year-ago, but was still an increase of approximately \$2.8 million.

Operating Revenues

Operating revenues increased by approximately \$2.3 million or 10.2%. The increase in sales and charges was primarily due to the implementation of fixed wastewater charges (starting at \$7.50 per month per meter) and changes in contractual customer rates offset by overall usage decrease by Utility customers. Fee and surcharge income were consistent with prior years for commercial and industrial customers for various regulatory and contractual issues.

Operating Revenues				
(in thousands)				
	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
North:				
Water sales	\$ 7,025	\$ 7,087	\$ (62)	-0.9%
Wastewater sales	9,521	8,309	1,212	14.6%
Stormwater fixed charges	743	672	71	10.6%
Penalties, fees and surcharges	<u>499</u>	<u>545</u>	<u>(46)</u>	<u>-8.4%</u>
Total North	<u>17,788</u>	<u>16,613</u>	<u>1,175</u>	<u>7.1%</u>
South				
Water sales	2,929	2,314	615	26.6%
Wastewater sales	3,453	3,042	411	13.5%
Penalties, fees and surcharges	<u>177</u>	<u>121</u>	<u>56</u>	<u>46.3%</u>
Total South	<u>6,559</u>	<u>5,477</u>	<u>1,082</u>	<u>19.8%</u>
Total operating revenues	<u>\$ 24,347</u>	<u>\$ 22,090</u>	<u>\$ 2,257</u>	<u>10.2%</u>

Operating Expenses

Operating expenses increased by approximately \$1.3 million or 6.9%. The key components of operating expenses are: Operation and maintenance expenses and depreciation expense. Operation and maintenance expense increased by approximately \$1.1 million primarily due to increased electric utility and sludge disposal costs as well as increases in personnel related costs (wages, health insurance and retirement). Depreciation expense increased approximately \$171,000 from the prior year, due to several significant construction projects being completed over last 12 to 18 months.

Operating Expenses

(in thousands)				
	6/30/2020	6/30/2019	Increase (Decrease)	Percent Change
Salaries and benefits	\$ 8,118	\$ 7,971	\$ 147	1.8%
Contractual services	2,403	1,989	414	20.8%
Supplies and materials	2,334	2,058	276	13.4%
Utilities	2,338	2,162	176	8.1%
Repairs and maintenance	733	672	61	9.1%
Other services and expenses	765	691	74	10.7%
Depreciation	3,801	3,630	171	4.7%
Total operating expenses	<u>\$ 20,492</u>	<u>\$ 19,173</u>	<u>\$ 1,319</u>	<u>6.9%</u>

Cash Flows

Statement of Cash Flows

(in thousands)				
	6/30/2020	6/30/2019	Increase (Decrease)	Percent Change
Cash Provided (Used) by:				
Operating Activities	\$ 7,436	\$ 7,336	\$ 100	1.4%
Financing Activities				
Non-capital	(450)	(400)	(50)	12.5%
Capital	(5,902)	(5,737)	(165)	2.9%
Investing Activities	187	266	(79)	-29.7%
Net Change in Cash	<u>\$ 1,271</u>	<u>\$ 1,465</u>	<u>\$ (194)</u>	<u>-13.2%</u>

Cash from Operating Activities increased by approximately \$100,000 primarily due to increased receipts from customers from fixed charge implementation offset by increased expense payments. Cash from Capital and Related Financing Activities increased by approximately \$165,000 due to decreased capital spending and scheduled principal payments on long term debt, offset with no current grant revenues and contributed capital in current year. Cash Provided by Investing Activities decreased by approximately \$79,000 primarily due to lower interest rate earned on deposit accounts.

Capital Assets

Utility staff has prepared a Strategic Plan for Capital Spending in the water, wastewater and stormwater systems. This document provides an overview of the anticipated needs of the Henderson Water Utility to repair, replace and add to our existing infrastructure for the period through fiscal year 2030. This plan will be updated annually and will assist in the annual capital budgeting process.

The Utility had entered into a Consent Judgment with the Commonwealth of Kentucky's Environmental & Public Protection Cabinet (EPPC) in 2007 related to reducing the negative environmental impacts of the City's combined sewer system on water quality. The Utility has completed all components of the LTCP with a final cost of approximately \$42 million. The Division of Water agreed to the Termination of our Consent Judgement and action was entered in Franklin Circuit Court on July 11, 2018 to finalize the termination. Only major outstanding item related to the completion of this program is issuance of a new Kentucky Pollution Discharge Permit for the North Wastewater system. Originally expected to be finalized in 2020, delays in negotiations with the State related to the Coronavirus pandemic have caused permit issuance to be delayed. Utility does not foresee any issues with permit issuance.

The major concern of focusing all our capital investments on the LTCP to meet the Consent Judgment requirements is that for several years, we were unable to fund other necessary infrastructure and operating needs at desired levels. The Utility's treatment plants, water distribution system, sewer and stormwater collection systems must be routinely repaired, replaced and upgraded. With extremely limited funds available for other capital needs outside the LTCP projects, we have been forced to delay investments in other critical infrastructure.

The focus of our capital plan has shifted to tank painting and repair projects, and to construction of new water and sanitary sewer lines that replace, upgrade and reinforce our water and wastewater systems. The most pressing need moving forward into the 2021 Fiscal Year is the need to construct a new raw water intake and related pumps, influent water line, and effluent discharge line at the South Plants complex, which is related to shutdown of portions of the Big Rivers Electric Corporation (BREC) complex at their Sebree Station. These changes will have a large capital component, upwards of \$8 million over the next 2-3 years, as well as a large impact on operating expenses, especially power costs in the near term.

Stormwater needs are ongoing, and the Utility has completed several small drainage projects over the previous fiscal year. We maintain a prioritized list of future projects. One notable project that was partially completed in this fiscal year is the Countryview Subdivision Stormwater Project to reduce flooding issues. This project has been jointly funded by the Utility and the City, and future phases are in the design process. We are also entering the planning and design phases for several small drainage and sewer separation projects that will be done with assistance from engineering consultants. A list of projects in the Strategic Plan "pipeline" for the next 3 to 5 years are moving forward to the design and permitting stages, to continue fulfilling the Strategic Plan.

Our challenge continues to be to balance these competing capital needs while providing our customers with quality water and services at a reasonable and competitive price.

The Utility's investment in capital assets as of June 30, 2020 amounted to approximately \$51.7 million (net of accumulated depreciation and related debt and liabilities). The investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, construction in progress and infrastructure acquired and disposed since the Utility's inception. The Utility's net capital assets for the current fiscal year decreased approximately \$1,043,000 or 1.2% due to current year depreciation expense, exceeding current year acquisitions. The Utility expended approximately \$2.8 million in the current fiscal year on the acquisition and construction of capital assets.

Major capital events of the current fiscal year included the following:

- Construction of various water and wastewater projects totaling approximately \$2.2 million. Main projects consisted of completion of the Myrene Drive Pump Station for approximately \$882,000, rehabilitation and painting of the Green River Road Tank of approximately \$370,000, in addition to numerous smaller water and stormwater projects.
- Expended approximately \$600,000 on purchase of an existing building adjacent to our System Operations Center, new sewer camera equipment (which is an integral part of our operations), two new vehicles for operations and various equipment (IT, lab, pumps/motors, etc.) for throughout the Utility

Additional information on the Utility's capital assets can be found in Note 4 on page 25 of this report.

Debt Administration

At June 30, 2020, the Utility had no principal outstanding in bonded debt in the Utility's name. The Utility also had other debt of \$30,596,427 which consists of various notes to the City of Henderson issued in conjunction with City's General Obligation Bonds (Series 2010 B, 2012 A, 2013 A, 2014 A, 2015 B & C, 2016 B and 2017 B) and a note payable related to equipment purchased. These bonds were issued to finance the Utility's various Long-Term Control Plan (LTCP) capital projects, necessary water plant improvements and refinance various Utility debt issues (revenue bonds, KADD & KIA notes, and KACO leases). The Utility has committed to reimbursing the City for all debt service payments made for these issuances.

Additional information on the Utility's debt can be found in Note 5 on pages 26-29 of this report.

Economic Factors and Next Year's Budgets and Rates

Water and wastewater revenues for the fiscal year ending June 30, 2021, are budgeted to increase approximately 6.5% from fiscal year 2020 budgeted revenues based primarily due to usage trends and contractual customer activity. Operation and maintenance expenses in the fiscal year ending June 30, 2021 are budgeted to increase by approximately \$1.4 million or 7.2% from the fiscal year 2020 budget, primarily based on increased utility, contractual services and maintenance costs. Utility continually monitors staffing levels to assess labor costs (salaries and benefits) to attempt to mitigate ongoing uncertainty related to future pension costs from the Utility's participation in the Kentucky County Employees Retirement System (CERS).

Management is continually monitoring our rates and rate structure in relation to capital needs, debt service and operational needs, as well as weighing cost to our customers compared to other utilities.

The Utility has implemented fixed fees which now generate approximately \$2+ million annually. The Utility continues to evaluate and balance available revenue against expenditures, regulatory requirements and service (consumption) levels and to seek operating efficiencies. Management emphasizes sound financial and operational decision-making with a focus on strategic thinking and planning.

Key objectives at present include focusing on future capital needs (which consist of significant projects related to the South Water system and the completion of the new System Operations Center which was purchased in Fall 2020), managing salary and benefit costs and staffing levels, and development of budgets that approach both revenues and expenses conservatively while focusing on long-term sustainability. Issues, such as the potential effects related to the Coronavirus pandemic, need for new debt borrowings, etc., must continually be deliberated in all discussions of operations.

Request for Information

The financial report is designed to provide our citizens, ratepayers, customers and creditors with a general overview of the Utility's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Utility at 111 Fifth Street, Henderson, Kentucky, 42420.

HENDERSON WATER UTILITY
STATEMENTS OF NET POSITION

June 30, 2020 and 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 9,192,438	\$ 7,922,065
Investments	36,140	50,390
Accounts receivable	2,618,582	2,232,734
Unbilled revenue	1,581,922	1,468,376
Accrued interest receivable	487	470
Inventories	607,458	789,154
Prepaid expenses	<u>200,774</u>	<u>102,455</u>
Total current assets	<u>14,237,801</u>	<u>12,565,644</u>
Noncurrent assets:		
Capital assets:		
Non-depreciable	1,461,482	1,466,482
Depreciable, net of accumulated depreciation	78,874,613	78,580,331
Construction in progress	<u>2,200,060</u>	<u>3,532,952</u>
Total capital assets	<u>82,536,155</u>	<u>83,579,765</u>
Other noncurrent assets	<u>169,546</u>	<u>200,574</u>
Total noncurrent assets	<u>82,705,701</u>	<u>83,780,339</u>
Total assets	<u>96,943,502</u>	<u>96,345,983</u>
Deferred outflows of resources:		
Deferred outflows related to pensions	2,199,082	2,437,425
Deferred outflows related to other postemployment benefits	972,185	787,038
Deferred loss on refunding of bonds payable	<u>82,043</u>	<u>103,558</u>
Total deferred outflows of resources	<u>3,253,310</u>	<u>3,328,021</u>
Total assets and deferred outflows of resources	<u>\$ 100,196,812</u>	<u>\$ 99,674,004</u>

See Accompanying Notes to Financial Statements

HENDERSON WATER UTILITY
STATEMENTS OF NET POSITION, Continued
June 30, 2020 and 2019

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND NET POSITION**

	<u>2020</u>	<u>2019</u>
Current liabilities:		
Accounts payable	\$ 719,841	\$ 913,828
Accrued liabilities	205,038	789,743
Accrued interest payable	129,214	137,383
Compensated absences	361,560	377,178
Current portion of long-term debt	2,471,318	2,411,574
Retainage payable	4,687	68,242
Unearned revenue	68,504	-
	<u>3,960,162</u>	<u>4,697,948</u>
Total current liabilities		
Noncurrent liabilities:		
Consumer deposits	172,819	139,704
Compensated absences	348,179	308,601
Net pension liability	10,884,480	9,938,647
Net other postemployment benefits liability	2,602,354	2,897,354
Long-term debt	28,375,930	30,892,505
	<u>42,383,762</u>	<u>44,176,811</u>
Total noncurrent liabilities		
Total liabilities	<u>46,343,924</u>	<u>48,874,759</u>
Deferred inflows of resources:		
Deferred inflows related to pensions	559,976	781,201
Deferred inflows related to other postemployment benefits	1,070,327	581,932
	<u>1,630,303</u>	<u>1,363,133</u>
Total deferred inflows of resources		
Net position:		
Investment in capital assets, net of related debt	51,766,263	50,311,002
Unrestricted	456,322	(874,890)
	<u>52,222,585</u>	<u>49,436,112</u>
Total net position		
Total liabilities, deferred inflows of resources, and net position	\$ 100,196,812	\$ 99,674,004

See Accompanying Notes to Financial Statements

HENDERSON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Water sales	\$ 9,953,743	\$ 9,400,452
Water penalties, surcharges and fees	124,121	71,007
Wastewater fees	12,974,518	11,351,242
Wastewater penalties, surcharges and fees	544,053	586,264
Stormwater fees	743,165	672,309
Stormwater penalties, surcharges and fees	7,261	8,486
	<hr/>	<hr/>
Total operating revenues	24,346,861	22,089,760
Operating expenses:		
Water pumps and tanks	487,303	163,751
Water intake and treatment	3,641,796	3,204,558
Water transmission and distribution	3,206,639	2,904,742
Wastewater lines and collection	1,979,274	1,431,849
Wastewater pumping stations	1,196,012	1,477,014
Wastewater pretreatment and treatment	5,318,992	5,166,742
Stormwater	860,922	1,193,876
Depreciation	3,801,068	3,630,299
	<hr/>	<hr/>
Total operating expenses	20,492,006	19,172,831
Operating income	<hr/>	<hr/>
	3,854,855	2,916,929
Nonoperating revenues (expenses):		
Gain on disposal of capital assets	17,324	10,210
Investment income	123,773	181,866
Grant revenue	-	574,583
Miscellaneous revenue	48,888	109,402
Interest expense	(808,367)	(853,403)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(618,382)	22,658
Income before distribution and capital contributions	3,236,473	2,939,587
Distribution to the City of Henderson	(450,000)	(400,000)
Capital contributions	-	1,071,110
	<hr/>	<hr/>
Change in net position	2,786,473	3,610,697
Net position, beginning of year	<hr/>	<hr/>
	49,436,112	45,825,415
Net position, end of year	<hr/> <hr/>	<hr/> <hr/>
	\$ 52,222,585	\$ 49,436,112

See Accompanying Notes to Financial Statements

HENDERSON WATER UTILITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Receipts from customers	\$ 23,411,903	\$ 21,564,764
Payments to suppliers for goods or services	(8,670,853)	(7,456,870)
Payments to or on behalf of employees	(7,305,351)	(6,772,104)
	<u>7,435,699</u>	<u>7,335,790</u>
Net cash provided by operating activities		
	<u>7,435,699</u>	<u>7,335,790</u>
Cash flows from noncapital financing activities		
Distributions to the City of Henderson	(450,000)	(400,000)
	<u>(450,000)</u>	<u>(400,000)</u>
Net cash used in noncapital financing activities		
	<u>(450,000)</u>	<u>(400,000)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,826,048)	(3,642,014)
Proceeds from issuance of long-term debt	-	305,150
Principal paid on long-term debt	(2,411,574)	(2,329,629)
Interest paid on long-term debt	(809,251)	(852,729)
Proceeds from capital contributions	72,815	248,295
Proceeds from grants	50,939	523,644
Proceeds from sale of capital assets	20,899	10,210
	<u>(5,902,220)</u>	<u>(5,737,073)</u>
Net cash used in capital and related financing activities		
	<u>(5,902,220)</u>	<u>(5,737,073)</u>
Cash flows from investing activities:		
Investment income	186,894	266,072
	<u>186,894</u>	<u>266,072</u>
Net cash provided by investing activities		
	<u>186,894</u>	<u>266,072</u>
Net increase (decrease) in cash and cash equivalents	1,270,373	1,464,789
Cash and cash equivalents, beginning of year	7,922,065	6,457,276
	<u>7,922,065</u>	<u>6,457,276</u>
Cash and cash equivalents, end of year	\$ <u>9,192,438</u>	\$ <u>7,922,065</u>

See Accompanying Notes to Financial Statements

HENDERSON WATER UTILITY

STATEMENTS OF CASH FLOWS, Concluded

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,854,855	\$ 2,916,929
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,801,068	3,630,299
Change in assets and liabilities:		
Decrease (increase) in assets and deferred outflows:		
Accounts receivable	(509,600)	59,293
Unbilled revenue	(113,546)	59,796
Inventories	181,696	21,383
Prepaid expenses	(98,319)	(24,316)
Deferred outflows of resources	53,196	961,464
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable	(192,528)	107,291
Accrued liabilities	(584,705)	(657,739)
Consumer deposits	33,115	26,409
Compensated absences	23,960	53,898
Unearned revenue	68,504	-
Net pension and OPEB liabilities	650,833	(111,734)
Deferred inflows of resources	<u>267,170</u>	<u>292,817</u>
Net cash provided by operating activities	<u>\$ 7,435,699</u>	<u>\$ 7,335,790</u>
Noncash investing, capital and financing activities:		
Unrealized gain (loss) on investments	\$ (14,251)	\$ 4,324
Non-cash capital contributions	\$ -	\$ 750,000

See Accompanying Notes to Financial Statements

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

1. **Organization and Summary of Significant Accounting Policies**

The accounting policies of the Henderson Water Utility (Utility) conform to governmental accounting and financial reporting principles for enterprise units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

Reporting Entity

The Henderson Water Utility is a component unit of the City of Henderson, Kentucky. Its purpose is to construct, operate, and maintain water and sewer service facilities and supply water to the City of Henderson and surrounding areas. It is legally separate from the City of Henderson but its governing body is appointed by the City Commission of Henderson. The financial statements presented here are also included in the comprehensive annual financial report of the City of Henderson, Kentucky.

Basis of Accounting

The Utility is accounted for as a proprietary (enterprise) fund. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned, and expenses are recognized as soon as they result in liabilities for the benefits provided. Proprietary funds are used to account for operations (a) that are financed in a manner similar to private business enterprise where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and (b) that a periodic determination of revenues earned, expenses incurred and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Charges for services include revenues based on exchange or exchange-like transactions, namely water and sewer use. Program-specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

Allocation of overhead expenses from one function to another, and within one function, are eliminated in the statement of revenues, expenses, and changes in net position so that allocated expenses are reported only by the function to which they were allocated.

HENDERSON WATER UTILITY
NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principle ongoing operations. The principle operating revenues of the Utility are charges to customers for water and sewer usage. Operating expenses include the cost of providing water and sewer services, administrative expenses and depreciation on capital assets. Other revenues and expenses are reported as nonoperating in the financial statements.

Measurement Focus

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the statement of revenues, expenses and changes in net position present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting revenues are recognized when earned, including unbilled utility services which are accrued. Expenses are recognized at the time the liability is incurred. Property tax revenues are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Revenue Recognition

The Utility recognizes revenues as services are rendered to customers. The determination of water sales and wastewater services to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of the fiscal year, amounts for services delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Utility considers all cash on hand and demand deposits to be cash and cash equivalents.

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies, Continued

Investments

KRS 66.480, as amended by House Bill 69, permits the Utility to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial bank certificates of deposit, savings and loan deposits, the Commonwealth of Kentucky investment pool, and certain mutual funds and individual equity securities. Investments are recorded at fair market value based on quoted market prices. Any gains or losses are reflected in the statement of income, in accordance with GASBS No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Accounts Receivable

Accounts receivable on the statement of net position is stated at face value, less an allowance for uncollectible accounts of \$166,805.

Inventories

Inventories of chemicals, parts and supplies are recorded at cost, which approximates market, using the FIFO method (first in, first out). The cost is recorded on an asset when purchased and as an expense when used (consumption method).

Capital Assets

Capital assets are stated at cost. All materials for capital improvements are capitalized when purchased. Construction in progress is not depreciated until completed and placed into service. Interest is capitalized on assets constructed and acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until the completion of the project with interest earned on the invested proceeds from debt issuance over the same period.

Depreciation rates are based upon estimated useful lives and have been applied on the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Structures, lines, mains and accessories, and system improvements	5-50
Equipment, tools and accessories, office equipment, shop and lab equipment	7-10
Transportation equipment	5
Rental property	20

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies, Continued

Bonds and Related Premiums, Discounts, and Issuance Costs

Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest rate method, as are deferred charges on refunding.

The Utility's current rate methodology as it relates to contracts with certain large industrial concerns provides for recovery of debt issuance costs through its rate structure; therefore, the Utility elected to follow the guidance under GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, rather than GASBS No. 65, *Items Previously Reported as Assets and Liabilities*. Under the guidance of GASBS No. 62, the debt issuance costs are considered by management to be a regulatory asset and are amortized over the life of the related debt using the interest rate method.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Utility and its employees is accrued as employees earn the rights to the benefits. Employees of the Utility are entitled to paid vacations and paid sick days, depending on job classification, length of service and other factors. The Utility's policy is to recognize the costs of accumulated earned, but unused, vacation and sick pay benefits under the accrual method of accounting in accordance with GASBS No. 16, *Accounting for Compensated Absences*.

Compensated absence activity for the year ended June 30, 2020, was as follows:

	Balance June 30, 2019	Additions	Deductions	Balance June 30, 2020
Compensated absences	\$ 685,779	\$ 373,314	\$ (349,354)	\$ 709,739

Presented on the statement of net position under the following captions:

Current liabilities – compensated absences	\$ 361,560
Noncurrent liabilities – compensated absences	348,179
	<u>\$ 709,739</u>

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies, Continued

Compensated Absences, Continued

Compensated absence activity for the year ended June 30, 2019, was as follows:

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
Compensated absences	\$ 631,881	\$ 520,673	\$ (466,775)	\$ 685,779

Presented on the statement of net position under the following captions:

Current liabilities – compensated absences	\$ 377,178
Noncurrent liabilities – compensated absences	<u>308,601</u>
	\$ <u>685,779</u>

Pension and Other Postemployment Benefits

For purposes of measuring the net liabilities, the deferred outflows of resources and deferred inflows of resources and expense related to pensions and other postemployment benefits (OPEB), information about the fiduciary net position of the pension/OPEB plans, and additions to/deductions from the pension/OPEB plans' fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plans. For this purpose, revenues are recognized when earned. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net 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 that applies to a future period and so will not be recognized as an expense or expenditure until then.

In addition to liabilities, the statement of net 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 that applies to a future period and so will not be recognized as revenue until then.

HENDERSON WATER UTILITY
NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

1. Organization and Summary of Significant Accounting Policies, Continued

Net Position

Net position presents the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources in the statement of net position. Proprietary fund net position is divided into three components:

- Net investment in capital assets consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted consists of net position that is restricted by the Utility's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted consists of net position that typically includes unrestricted liquid assets.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Accounting and Related Services

The Utility has an agreement with the City of Henderson to perform its billing and collection services. All monies collected and due to the Utility are maintained in the City of Henderson's Utility Clearing Fund and are paid to the Utility on a weekly basis. The City of Henderson also processes the recording and payment of vendor invoices and the bi-weekly payroll processing for the Utility. In addition, the City manages the human resource functions administration for the Utility.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

2. Cash and Cash Equivalents

At June 30, 2020 and 2019, the Utility maintained deposits in the amount of \$9,643,110 and \$7,919,419, respectively, with one local financial institution. Of the bank balances, \$250,000 was insured by federal deposit insurance and the remaining balance was fully collateralized by pledged securities.

3. Investments

At June 30, 2020 and 2019, the carrying amount of investments was \$36,140 and \$50,390, respectively, and consisted of marketable securities.

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The investments consist of marketable securities, which utilize Level 1 inputs for fair value measurements.

Interest Rate Risk

As a means of limiting exposures to fair value losses arising from interest rates, the Utility manages the maturities of its investment portfolio. The Utility had no investments at June 30, 2020 and 2019, subject to interest rate risk.

Credit Risk

The Utility is authorized to invest in U.S. government-backed securities, any corporation of the U.S. Government, certificates of deposit and bankers acceptances issued by highly rated banks, commercial paper in the highest rating category, securities issued by a state or local government rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds and individual equity securities, and any other investment permitted by KRS 66.480. The Utility had no unauthorized investments at June 30, 2020 and 2019.

Custodial Credit Risk

For an investment, the custodial credit risk is the risk that in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Utility's investments are held in the name of the Utility.

HENDERSON WATER UTILITY
NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

3. Investments, Continued

Concentration of Credit Risk

The amount of money invested at any time by the Utility in one or more of the categories of investments authorized by KRS 66.480 shall not exceed 20%.

All of the investments held by the Utility at June 30, 2020 and 2019, are in marketable securities. These securities were obtained by the Utility at no cost when the Utility's life insurance provider converted to a publicly-traded company from a mutual company in 2002.

Investment Earnings

Investment earnings for the Utility consisted of the following for the years ended June 30, 2020 and 2019:

	2020		
	Marketable Securities	Bank Deposits	Total
Dividends and interest	\$ 1,931	\$ 136,093	\$ 138,024
Unrealized gain (loss)	(14,251)	-	(14,251)
	\$ (12,320)	\$ 136,093	\$ 123,773
	2019		
Dividends and interest	\$ 1,888	\$ 175,654	\$ 177,542
Unrealized gain (loss)	4,324	-	4,324
	\$ 6,212	\$ 175,654	\$ 181,866

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

4. Capital Assets

Capital asset activity for the years ended June 30, 2020 and 2019, was as follows:

	2020			
	Balance June 30, 2019	Additions	Disposals	Balance June 30, 2020
North:				
Water pumps and tanks	\$ 7,689,377	\$ 369,913	\$ -	\$ 8,059,290
Water treatment plant	6,676,297	50,074	-	6,726,371
Water transmission and distribution	22,078,392	676,943	(16,154)	22,739,181
Wastewater lines and collections	27,289,971	124,539	-	27,414,510
Wastewater pumping stations	6,979,210	901,420	-	7,880,630
Wastewater treatment plant	28,289,420	821,948	-	29,111,368
Stormwater system	14,433,204	734,187	-	15,167,391
South:				
Water pumps and tanks	2,395,225	-	-	2,395,225
Water treatment plant	3,400,511	-	-	3,400,511
Water transmission and distribution	1,200,899	-	-	1,200,899
Wastewater lines and collections	2,923,221	-	-	2,923,221
Wastewater pumping stations	1,035,100	-	-	1,035,100
Wastewater treatment plant	12,885,222	12,947	(6,903)	12,891,266
Administration	1,205,095	59,054	(145,990)	1,118,159
Systems operations center	5,008,606	344,326	(27,267)	5,325,665
Total, at original cost	<u>143,489,750</u>	<u>4,095,350</u>	<u>(196,314)</u>	<u>147,388,786</u>
Accumulated depreciation	<u>(63,442,937)</u>	<u>(3,801,068)</u>	<u>191,314</u>	<u>(67,052,691)</u>
	80,046,813	294,282	(5,000)	80,336,095
Construction in progress	<u>3,532,952</u>	<u>2,445,117</u>	<u>(3,778,009)</u>	<u>2,200,060</u>
Capital assets, net	<u>\$ 83,579,765</u>	<u>\$ 2,739,399</u>	<u>\$ (3,783,009)</u>	<u>\$ 82,536,155</u>
	2019			
	Balance June 30, 2018	Additions	Disposals	Balance June 30, 2019
North:				
Water pumps and tanks	\$ 7,689,377	\$ -	\$ -	\$ 7,689,377
Water treatment plant	6,631,575	44,722	-	6,676,297
Water transmission and distribution	21,826,213	258,996	(6,817)	22,078,392
Wastewater lines and collections	27,196,471	93,500	-	27,289,971
Wastewater pumping stations	6,956,162	23,048	-	6,979,210
Wastewater treatment plant	28,295,363	36,479	(42,422)	28,289,420
Stormwater system	14,304,178	129,026	-	14,433,204
South:				
Water pumps and tanks	1,645,225	750,000	-	2,395,225
Water treatment plant	3,410,510	-	(9,999)	3,400,511
Water transmission and distribution	1,200,899	-	-	1,200,899
Wastewater lines and collections	2,923,221	-	-	2,923,221
Wastewater pumping stations	1,035,100	-	-	1,035,100
Wastewater treatment plant	8,910,002	3,975,220	-	12,885,222
Administration	1,195,368	9,727	-	1,205,095
Systems operations center	4,673,417	382,025	(46,836)	5,008,606
Total, at original cost	<u>137,893,081</u>	<u>5,702,743</u>	<u>(106,074)</u>	<u>143,489,750</u>
Accumulated depreciation	<u>(59,918,712)</u>	<u>(3,630,299)</u>	<u>106,074</u>	<u>(63,442,937)</u>
	77,974,369	2,072,444	-	80,046,813
Construction in progress	<u>4,917,432</u>	<u>3,128,709</u>	<u>(4,513,189)</u>	<u>3,532,952</u>
Capital assets, net	<u>\$ 82,891,801</u>	<u>\$ 5,201,153</u>	<u>\$ (4,513,189)</u>	<u>\$ 83,579,765</u>

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

5. Long-Term Debt, Continued

Long-term debt at June 30, 2020 and 2019, consists of the following:

	2020	2019
Note payable to City of Henderson 2010B, 3.00% to 3.50%, due serially thru 2023	\$ 547,093	\$ 671,183
Note payable to City of Henderson 2012A, 2.00% to 3.30%, due serially thru 2031	6,535,000	6,995,000
Note payable to City of Henderson 2013A, 2.00% to 2.75%, due serially thru 2032	6,770,000	7,215,000
Note payable to City of Henderson 2014A, 2.00% to 2.50%, due serially thru 2034	6,340,000	6,685,000
Note payable to City of Henderson 2015B, 1.50% to 2.50%, due serially thru 2026	1,085,000	1,245,000
Note payable to City of Henderson 2015C, 2.00% to 2.75%, due serially thru 2029	1,265,000	1,375,000
Note payable to City of Henderson 2016B, 2.00% to 2.50%, due serially thru 2030	6,070,000	6,560,000
Note payable to City of Henderson 2017B, 3.00%, due serially thru 2025	1,760,000	1,980,000
Note payable, 3.70%, payable in monthly installments of \$5,579 until January 2024 (secured by truck)	224,334	281,818
	\$ 30,596,427	\$ 33,008,001

Scheduled aggregate maturities of long-term debt are as follows:

Year Ending June 30:	Principal	Interest	Total
2021	\$ 2,471,318	\$ 757,080	\$ 3,228,398
2022	2,526,094	702,380	3,228,474
2023	2,576,038	644,917	3,220,955
2024	2,617,977	584,648	3,202,625
2025	2,495,000	525,046	3,020,046
2026 – 2030	11,855,000	1,711,441	13,566,441
2031 – 2035	6,055,000	339,042	6,394,042
	\$ 30,596,427	\$ 5,264,554	\$ 35,860,981

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

5. Long-Term Debt, Continued

In 2010, the City of Henderson issued General Obligation Bonds Series 2010B. The City's General Obligation Bonds, Tax-Exempt Series 2010B, were issued to refund various debt issues of the City of Henderson and the Utility. The City of Henderson designated in the bond ordinance that \$1,591,251 of the 2010B issue, which totaled \$3,605,000, be used to refund the Utility's Kentucky Council of Area Development District 2002 Series 065 debt. The Utility is to fully reimburse the City for its pro-rata share of the debt service payments on the 2010B issue.

In 2012, the City of Henderson issued General Obligation Bond Series 2012A. The City's General Obligation Bonds, Tax-Exempt Series 2012A, were issued to continue construction of the Canoe Creek Phase Two Project and begin construction on the new North Wastewater Plant Head Works Project. The City of Henderson designated in the bond ordinance that the proceeds of \$9,995,000 were solely for the benefit of the Utility. The Utility is to fully reimburse the City annually for all required debt service payments until the bonds are retired.

In 2013, the City of Henderson issued General Obligation Bond Series 2013A. The City's General Obligation Bonds, Tax-Exempt Series 2013A, were used to complete construction of the Canoe Creek Phase Two Project and continue construction on the North Wastewater Plant Head Works Project. The City of Henderson designated in the bond ordinance that the proceeds of \$9,730,000 were solely for the benefit of the Utility. The Utility is to fully reimburse the City annually for all required debt service payments until the bonds are retired.

In 2014, the City of Henderson issued General Obligation Bond Series 2014A. The City's General Obligation Bonds, Tax-Exempt Series 2014A, were issued to complete projects in the North and South water systems. The City of Henderson designated in the bond ordinance that the proceeds of \$8,000,000 were solely for the benefit of the Utility. The Utility is to fully reimburse the City annually for all required debt service payments until the bonds are retired.

In 2015, the City of Henderson issued General Obligation Bond Series 2015B. The City's General Obligation Bonds, Tax-Exempt Series 2015B, were issued to refund the Utility's Kentucky Infrastructure Authority loan from 1996. The City of Henderson designated in the bond ordinance that the proceeds of \$1,870,000 were solely for the benefit of the Utility. The Utility is to fully reimburse the City annually for all required debt service payments until the bonds are retired. The economic gain resulting from this refunding was \$448,239 (based upon NPV from delivery date). The difference in cash flow requirements to service the old debt of \$2,034,088 and the cash flows to service the new debt of \$1,870,000 is \$507,465.

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

5. Long-Term Debt, Continued

In 2015 the City of Henderson issued General Obligation Bond Series 2015C. The City's General Obligation Bonds, Tax-Exempt Series 2015C, were issued to refund the Utility's Kentucky Area Development District loan of 2005. The City of Henderson designated in the bond ordinance that the proceeds of \$1,700,000 were solely for the benefit of the Utility. The Utility is to fully reimburse the City annually for all required debt service payments until the bonds are retired. The economic gain resulting from this refunding was \$319,945 (based upon NPV from delivery date). The difference in cash flow requirements to service the old debt of \$1,828,888 and the cash flows to service the new debt of \$1,700,000 is \$376,224.

In 2016, the City of Henderson issued General Obligation Bond Series 2016B. The City's General Obligation Bonds, Tax-Exempt Series 2016B, were issued to refund the City's Series 2010A Build America Bonds that were loaned to the Utility for the Downtown Sewer Separation Project. The City of Henderson designated in the bond ordinance that the proceeds of \$8,015,000 were solely for the benefit of the Utility. The Utility is to fully reimburse the City annually for all required debt service payments until the bonds are retired. The economic gain resulting from this refunding was \$880,146 (based upon NPV from delivery date). The difference in cash flow requirements to service the old debt of \$8,430,000 and the cash flows to service the new debt of \$8,015,000 is \$1,035,529.

In 2017, the City of Henderson issued General Obligation Bond Series 2017B. The City's General Obligation Bonds, Tax-Exempt Series 2017B, were issued to refund the Utility's Water and Sewer Revenue Bonds Series 2006A that were issued to fund the Downtown Sewer Separation Project. The City of Henderson designated in the bond ordinance that the proceeds of \$2,390,000 were solely for the benefit of the Utility. The Utility is to fully reimburse the City annually for all required debt service payments until the bonds are retired. The economic gain resulting from this refunding was \$224,213 (based upon NPV from delivery date and after application of reserve funds of \$450,597). The difference in cash flow requirements to service the old debt of \$3,110,000 and the cash flows to service the new debt of \$2,390,000 is \$751,566.

All bonds are secured by a pledge of, and are payable from, the gross revenues derived from the operation of the Utility. In the event of default, any agency of the Commonwealth of Kentucky or political subdivision thereof which may collect and distribute taxes or revenues for the City will be notified to seek any available necessary or proper remedial action for the benefit of the owners of the Bonds or their assignees.

The difference between the reacquisition price and the net carrying amount of defeased bond issues has been deferred and is being amortized using the interest rate method over the lives of the defeased bond issues.

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

6. Pension and Other Postemployment Benefits

Plan Description

The Utility contributes to the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension/OPEB plan administered by Kentucky Retirement Systems (KRS) that covers members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of Kentucky Retirement Systems (Board). KRS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

CERS provides for retirement, disability, and death benefits to system members through its Pension Fund, as well as other postemployment benefits (OPEB) for hospital and medical insurance through its Insurance Fund.

Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type / amount of service, participation date, and retirement date; and years of service. Plan members with a participation date prior to September 1, 2008, are eligible to retire with full benefits at any time with 27 or more years of service credit, or at age 65 with at least 4 years of service credit. Plan members with a participation date on or after September 1, 2008, are eligible to retire with full benefits at age 57 if the member's age and years of service equal 87, or at age 65 with at least 5 years of service credit.

Other postemployment benefits provided by CERS consist of prescribed contributions for whole or partial payments of required premiums to purchase hospital and medical insurance.

Contributions

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008, an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the KRS Board to be necessary for the actuarial soundness of the systems, as required by KRS 61.565 and KRS 61.752.

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

6. Pension and Other Postemployment Benefits, Continued

Contributions, Continued

The Utility's actuarially determined contribution rates and contribution amounts, based on annual creditable compensation, for the year ended June 30, 2019, were as follows:

	Contribution Rates	Contributions
Pension	19.30%	\$ 819,536
OPEB	4.76	202,124
Total	24.06%	\$ 1,021,660

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

The net pension and OPEB liabilities reported as of June 30, 2020, were measured as of June 30, 2019, and the total pension and OPEB liabilities used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The Utility's proportion of the liabilities was based on a projection of the Utility's long-term share of contributions to the plan relative to the projected contributions of all participating entities, actuarially determined. Changes in the Utility's pension and OPEB proportions as of the measurement dates were as follows:

	Pension	OPEB
June 30, 2019	0.163188%	0.163187%
Increase (decrease)	(0.008426)	(0.008465)
June 30, 2020	0.154762%	0.154722%

The Utility's pension and OPEB liabilities and expense as of and for the year ended June 30, 2020, were as follows:

	Pension	OPEB
Net Liability	\$ 10,884,480	\$ 2,602,354
Expense	\$ 1,782,487	\$ 210,372

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

6. Pension and Other Postemployment Benefits, Continued

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

At June 30, 2020, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 277,913	\$ 45,990	\$ -	\$ 785,191
Changes of assumptions	1,101,633	-	770,061	5,149
Net difference between projected and actual earnings on plan investments	-	175,463	-	115,585
Changes in proportion and differences between contributions and proportionate share of contributions	-	338,523	-	164,402
Contributions subsequent to the measurement date	819,536	-	202,124	-
Total	\$ <u>2,199,082</u>	\$ <u>559,976</u>	\$ <u>972,185</u>	\$ <u>1,070,327</u>

The \$819,536 and \$202,124 of deferred outflows of resources resulting from the Utility's pension and OPEB contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liabilities in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as follows:

Year ending June 30,	Pension	OPEB
2021	\$ 611,680	\$ (52,213)
2022	136,498	(52,213)
2023	58,945	(15,463)
2024	12,447	(85,789)
2025	-	(78,706)
2026	-	(15,882)
	\$ <u>819,570</u>	\$ <u>(300,266)</u>

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

6. Pension and Other Postemployment Benefits, Continued

Actuarial Assumptions

The total pension/OPEB liabilities in the June 30, 2018, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Healthcare payroll growth rate	2.00%
Salary increases	3.03% to 10.30%, varies by service
Net investment rate of return	6.25%
Healthcare cost trend rates (OPEB)	Pre-65: Initial trend starting at 7.0% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. Post-65: Initial trend starting at 5.0% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2018.

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

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

6. Pension and Other Postemployment Benefits, Continued

Actuarial Assumptions, Continued

	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
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		
Core bonds	13.50	1.35%
Cash	1.00	.20%
Diversifying strategies		
Real estate	5.00	4.85%
Opportunistic	3.00	2.97%
Real return	15.00	4.10%
Total	100.00%	

Discount Rate

The discount rates used to measure the total pension/OPEB liabilities at the measurement dates and changes since the prior year were as follows:

	Pension	OPEB
Discount rate, June 30, 2018	6.25%	5.85%
Increase (decrease)	-	(0.17)
Discount rate, June 30, 2019	6.25%	5.68%

The discount rate of 6.25% used to measure the total pension liability was based on the expected rate of return on pension plan investments. The discount rate of 5.68% used to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019.

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

6. Pension and Other Postemployment Benefits, Continued

Discount Rate, Continued

The projection of cash flows used to determine the pension discount rate assumed that the funds would receive the required employer contributions in each future year, as determined by the current funding policy established in Statute last amended by House Bill 362 (passed in 2018). The projection of cash flows used to determine the OPEB discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability.

Sensitivity of the Utility's Proportionate Share of the Liabilities to Changes in the Discount Rate

The following presents the Utility's proportionate share of the net pension/OPEB liabilities, as well as what the Utility's proportionate share of the net pension/OPEB liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Utility's Proportionate Share			
	Discount Rate	Net pension Liability	Discount Rate	Net OPEB Liability
1% decrease	5.25%	\$ 13,613,398	4.68%	\$ 3,486,087
Current discount rate	6.25%	\$ 10,884,480	5.68%	\$ 2,602,354
1% increase	7.25%	\$ 8,609,954	6.68%	\$ 1,874,220

Sensitivity of the Utility's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	Healthcare Cost Trend Rate	Utility's Proportionate Share of Net OPEB Liability
	1% decrease	6.0% Pre-65 or 4.0% Post-65
Current healthcare cost trend rate	7.0% Pre-65 or 5.0% Post-65	\$ 2,602,354
1% increase	8.0% Pre-65 or 6.0% Post-65	\$ 3,411,135

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

6. Pension and Other Postemployment Benefits, Continued

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

Payables to the Pension/OPEB Plans

The Utility remits their portion of pension/OPEB contributions with each payroll transfer to the City of Henderson (City). The outstanding amount of the Utility's pension/OPEB contributions due to CERS from the City for the year ended June 30, 2020, was:

<u>Pension</u>	<u>OPEB</u>
\$ <u>61,561</u>	\$ <u>15,198</u>

7. Deferred Compensation

The Utility allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority (KDC). The KDC is authorized under Kentucky Revised Statutes (18A.230 - 18A.275) to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. The KDC offers a plan authorized by Section 457(b) of the Internal Revenue Code and a plan authorized by Section 404(k) of the Internal Revenue Code. Both plans are available to all employees and permit them to defer up to 25% of their compensation (subject to limits) until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary. The Utility makes no contributions to these plans.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

8. Related Party Transactions

The Water and Sewer Commission's members are appointed by the Mayor and Commissioners of the City of Henderson. The Water and Sewer Commission is organized to operate, manage, and control the City of Henderson's Wastewater and Stormwater Systems and the City of Henderson is contingently liable for the outstanding bonded indebtedness (Note 5) of the system in the event user charges are inadequate to fulfill the system's debt service requirements. Other transactions with the City of Henderson during the years ended June 30, 2020 and 2019, were as follows:

Payment to the City of Henderson of \$650,000 and \$620,000, respectively, for data processing, meter-reading, customer service and other services relating to water, wastewater and stormwater billings and collections.

Payment to the City of Henderson of \$450,000 and \$400,000, respectively, in the form of a distribution.

Payment to the City of Henderson of \$1,433,985 and \$1,353,044, respectively, for health insurance. The Utility participates in the City of Henderson's self-insurance plan. Risk is minimized by the purchase of re-insurance for amounts in excess of the stop loss limit. Charges are based on amounts determined to fund claims as they become due and payable and are adjusted periodically.

The Utility had recorded payables to the City of Henderson of \$96,273 and \$170,250, respectively. These payables consisted of gas and electric usage for June.

The Utility had recorded receivables from the City of Henderson of \$760,119 and \$934,701, respectively. These receivables related to billings and collections of water and wastewater services by the City of Henderson and not yet remitted to the Utility.

The Utility reimbursed the City of Henderson for all principal and interest payments required under the bond ordinances as set forth in Footnote 5.

9. Commitments and Contractual Obligations

The Henderson Water Utility operates a secondary water and wastewater treatment facility located in Southeastern Henderson County, Kentucky, capable of producing 4 million gallons of water and treating 8 million gallons of wastewater daily. The Utility has an inter-local agreement with the Counties of Henderson, McLean, and Webster to share equally in the debt service in the event adequate funds are not generated by this facility to cover the amount of the annual debt service. The Utility also has agreements to provide water to the following communities:

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

9. Commitments and Contractual Obligations, Continued

City of Sebree

In September 1995, the Henderson Water Utility entered into an agreement with the City of Sebree, Kentucky, whereby the Utility agrees to sell and deliver to the City and the City agrees to purchase and receive from the Utility all of the water and sewer services required by the City. The agreement outlines a specific rate, which will be charged by the Utility to the City for water and sewer service. Sales to the City of Sebree totaled \$247,652 and \$230,151, respectively, for the years ended June 30, 2020 and 2019.

City of Beech Grove

In October 2014, the Henderson Water Utility entered into an agreement with the Beech Grove Water System, whereby the Utility agrees to sell and deliver to the System and the System will purchase and receive from the Utility all of the water services required by the System. The agreement outlines a specific rate, which will be charged by the Utility to the system for water service. The term of the contract will be twenty-five years, expiring on September 30, 2039. Sales to the Beech Grove Water System totaled \$208,612 and \$219,501, respectively, for the years ended June 30, 2020 and 2019.

City of Corydon

In April 2015, the Henderson Water Utility entered into an agreement with the City of Corydon, Kentucky, whereby the Utility agrees to sell and deliver to the City and the City agrees to purchase and receive from the Utility all of the sewer services required by the City. The agreement outlines a specific flat rate, adjusted annually for inflation, which will be charged by the Utility to the City for sewer service. The term of the contract will be forty years expiring on April 30, 2055. Sales to the City of Corydon totaled \$38,863 and \$38,803, respectively, for the years ended June 30, 2020 and 2019.

Henderson County Water District

In June 1989, amended February 1997, the Henderson Water Utility entered into an agreement with the Henderson County Water District, whereby the Utility agrees to sell and deliver to the District and the District will purchase and receive from the Utility all of the water services required by the District. The agreement outlines a specific rate, which will be charged by the Utility to the District for water service. The term of the contract will be forty years, expiring in July 2029. Sales to the Henderson County Water District totaled \$1,415,083 and \$1,566,884, respectively, for the years ended June 30, 2020 and 2019.

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

9. Commitments and Contractual Obligations, Continued

Tyson Foods, Inc.

In November 1994, amended February 1998 and October 2000, the Henderson Water Utility entered into an agreement with Tyson Foods, Inc. (formerly Hudson Foods, Inc.) whereby the Utility agrees to sell and deliver to Tyson and Tyson agrees to purchase and receive from the Utility all of the water and sewer service. The terms of the contract expire June 30, 2018, but shall continue until eighteen-month notice by either party in the event Tyson is not in default at the end of original contract term. The agreement outlines a specific rate, which will be charged by the Utility to the Tyson Foods, Inc. for water and sewer service. Sales to Tyson Foods, Inc. totaled \$5,999,833 and \$4,958,029, respectively, for the years ended June 30, 2020 and 2019.

International Paper Company (formerly Weyerhaeuser Company)

In January 1996, amended October 1998, July 1999, and December 2018, the Henderson Water Utility entered into an agreement with the International Paper Company (formerly Weyerhaeuser Company) whereby the Utility agrees to sell and deliver to the International Paper Company and the International Paper Company agrees to purchase and receive from the Utility all of the water and sewer services required by the International Paper Company. The terms of the contract expire December 31, 2020, and will renew for terms of one year unless terminated by written notice of either party six months prior to the end of any such extended term. The agreement outlines a specific rate, which will be charged by the Utility to the International Paper Company for water and sewer service. Sales to the International Paper Company totaled \$3,114,667, and \$2,777,647, respectively, for the years ended June 30, 2020 and 2019.

Big Rivers Electric Corporation

In March 1995, amended October 2000 and September 2015, the Henderson Water Utility entered an agreement with Big Rivers Electric Corporation, whereby the Utility agrees to sell and deliver to Big Rivers Electric Corporation and Big Rivers Electric Corporation will receive from the Utility all the water and sewer services required by Big Rivers Electric Corporation. The agreement outlines that no rate or fee will be charged by the Utility to Big Rivers Electric Company for water service, on up to 75,000 gallons per day, and sewer service. The term of the contract will be twenty-five years expiring in September 2040, with an automatic renewal for successive five year terms until terminated by either party with two-year notice. With the closure of the Reid/Green plant by Big Rivers, the Utility now incurs the power costs related to the circulating water pumps to maintain supply to the South water system.

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

10. Major Customers

For the years ended June 30, 2020 and 2019, one industrial customer, one commercial customer, and one governmental utility customer accounted for \$10,529,583 and \$9,302,560, respectively, in sales and surcharges for approximately 43.2% and 42.1%, respectively, of the Utility's total operating revenues.

11. Risk Management

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utility carries commercial insurance for these types of risks of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Self-Funded Health Insurance Plan

The Utility participates in the City of Henderson, Kentucky's, self-insured health plan for the purpose of providing health insurance to its employees. The plan limits its losses via the purchase of stop loss insurance. Specific losses to claims are limited to \$125,000.

The City of Henderson estimates the annual amount of the premiums as part of its budgetary process each year. Each department or component unit is billed based on its percentage of employees in the plan. Charges to each department or component unit participating in the plan may increase depending on the dollar volume of claims activity. The Utility's share of the unpaid claims and incurred but not reported liability are immaterial to the financial statements as of June 30, 2020 and 2019.

12. COVID-19 Considerations

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported in Wuhan, China, and has since extensively impacted the global health and economic environment. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President declared the COVID-19 outbreak in the United States as a national emergency.

During the COVID-19 pandemic, the Utility's services have generally been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, management is closely monitoring the impact of the COVID-19 pandemic on all aspects of operations, including how it impacts our customers, subcontractors, suppliers, vendors and employees, in addition to how the COVID-19 pandemic impacts the Utility's

HENDERSON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

12. COVID-19 Considerations, Continued

ability to provide services to our customers. We believe the ultimate impact of the COVID-19 pandemic on the Utility's operating results, cash flows and financial condition is likely to be determined by factors which are uncertain, unpredictable and outside of the Utility's control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely impact the Utility.

During the period from March through June 30, 2020, the Utility has not written off any past due customer receivables and has allowed the reserves to increase for the economic disruption caused by COVID-19, which is reflected in bad debt expense in the current year. This increase was primarily, but not exclusively, due to concern over collectability of receivables from customers more directly impacted by COVID-19.

HENDERSON WATER UTILITY

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
PENSION FUND**

Last 10 Fiscal Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utility's proportion of the net pension liability	0.154762%	0.163188%	0.164653%	0.165171%	0.157013%	0.154670%
Utility's proportionate share of the net pension liability	\$ 10,884,480	\$ 9,938,647	\$ 9,637,646	\$ 8,132,373	\$ 6,734,694	\$ 5,018,000
Utility's covered payroll	\$ 3,961,857	\$ 4,024,206	\$ 4,064,860	\$ 3,983,454	\$ 3,707,812	\$ 3,548,282
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	274.73%	246.97%	237.10%	204.15%	181.64%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

* Presented for those years for which the information is available.

HENDERSON WATER UTILITY

**SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM
PENSION FUND**

Last 10 Fiscal Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 819,536	\$ 642,613	\$ 582,705	\$ 567,048	\$ 494,745	\$ 472,746
Contributions in relation to the contractually required contributions	<u>(819,536)</u>	<u>(642,613)</u>	<u>(582,705)</u>	<u>(567,048)</u>	<u>(494,745)</u>	<u>(472,746)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's covered payroll	\$ 4,246,298	\$ 3,961,857	\$ 4,024,206	\$ 4,064,860	\$ 3,983,454	\$ 3,707,812
Contributions as a percentage of covered payroll	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%

* Presented for those years for which the information is available.

HENDERSON WATER UTILITY

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Utility's proportion of the net OPEB liability	0.154722%	0.163188%	0.164653%
Utility's proportionate share of the net OPEB liability	\$ 2,602,354	\$ 2,897,354	\$ 3,310,089
Utility's covered payroll	\$ 3,961,857	\$ 4,024,206	\$ 4,064,860
Utility's proportionate share of the net OPEB liability as a percentage of its covered payroll	65.69%	72.00%	81.43%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	53.54%	52.39%

* Presented for those years for which the information is available.

HENDERSON WATER UTILITY
SCHEDULE OF OPEB CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 202,124	\$ 208,394	\$ 189,138
Contributions in relation to the contractually required contributions	<u>(202,124)</u>	<u>(208,394)</u>	<u>(189,138)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Utility's covered payroll	 \$ 4,246,298	 \$ 3,961,857	 \$ 4,024,206
Contributions as a percentage of covered payroll	4.76%	5.26%	4.70%

* Presented for those years for which the information is available.

HENDERSON WATER UTILITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION COUNTY EMPLOYEES RETIREMENT SYSTEM PENSION FUND

Year Ended June 30, 2020

Changes of Benefit Terms

2020	None
2019	None
2018	None
2017	None
2016	None

Changes of Assumptions

2020 Pension and OPEB:

The salary increases assumption was changed from 3.05% to 3.30% - 10.30%.

OPEB:

The single discount rate changed from 5.85% to 5.68%.

2019 Pension and OPEB:

The salary increases assumption was changed from 2.00% to 3.05%.

OPEB:

The single discount rate changed from 5.84% to 5.85%.

2018 Pension and OPEB:

The assumed investment return was changed from 7.50% to 6.25%.

The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service.

The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

OPEB:

The single discount rate changed from 6.89% to 5.84%.

2017 None

2016 Pension:

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

HENDERSON WATER UTILITY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY DIVISION

Year Ended June 30, 2020

	<u>North Water</u>	<u>North Wastewater</u>	<u>Stormwater</u>	<u>South Water</u>	<u>South Wastewater</u>	<u>Total</u>
Operating revenues:						
Sales	\$ 7,024,908	\$ 9,521,469	\$ 743,165	\$ 2,928,835	\$ 3,453,050	\$ 23,671,427
Penalties, surcharges and fees	<u>110,093</u>	<u>381,037</u>	<u>7,261</u>	<u>14,028</u>	<u>163,015</u>	<u>675,434</u>
Total operating revenues	<u>7,135,001</u>	<u>9,902,506</u>	<u>750,426</u>	<u>2,942,863</u>	<u>3,616,065</u>	<u>24,346,861</u>
Operating expenses:						
Water pumps and tanks	467,771	-	-	19,532	-	487,303
Depreciation	279,063	-	-	54,101	-	333,164
Water intake and treatment	1,606,314	-	-	2,035,482	-	3,641,796
Depreciation	193,730	-	-	85,620	-	279,350
Water transmission and distribution	2,952,349	-	-	254,290	-	3,206,639
Depreciation	576,699	-	-	44,563	-	621,262
Wastewater lines and collection	-	1,953,236	-	-	26,038	1,979,274
Depreciation	-	654,703	-	-	40,116	694,819
Wastewater pumping stations	-	1,017,662	-	-	178,350	1,196,012
Depreciation	-	289,494	-	-	21,639	311,133
Wastewater pretreatment and treatment	-	3,094,943	-	-	2,224,049	5,318,992
Depreciation	-	837,233	-	-	342,302	1,179,535
Stormwater	-	-	860,922	-	-	860,922
Depreciation	-	-	381,805	-	-	381,805
Total operating expenses	<u>6,075,926</u>	<u>7,847,271</u>	<u>1,242,727</u>	<u>2,493,588</u>	<u>2,832,494</u>	<u>20,492,006</u>
Operating income (loss)	<u>1,059,075</u>	<u>2,055,235</u>	<u>(492,301)</u>	<u>449,275</u>	<u>783,571</u>	<u>3,854,855</u>
Non-operating revenues (expenses):						
Gain on disposal of capital assets	17,324	-	-	-	-	17,324
Investment income	123,773	-	-	-	-	123,773
Grant revenue	-	-	-	-	-	-
Miscellaneous revenue	48,888	-	-	-	-	48,888
Interest expense	<u>(101,925)</u>	<u>(551,297)</u>	<u>(90,252)</u>	<u>(47,037)</u>	<u>(17,856)</u>	<u>(808,367)</u>
Total non-operating revenues (expenses)	<u>88,060</u>	<u>(551,297)</u>	<u>(90,252)</u>	<u>(47,037)</u>	<u>(17,856)</u>	<u>(618,382)</u>
Change in net position before distribution and contributions	<u>\$ 1,147,135</u>	<u>\$ 1,503,938</u>	<u>\$ (582,553)</u>	<u>\$ 402,238</u>	<u>\$ 765,715</u>	<u>\$ 3,236,473</u>

HENDERSON WATER UTILITY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY DIVISION

Year ended June 30, 2019

	<u>North Water</u>	<u>North Wastewater</u>	<u>Stormwater</u>	<u>South Water</u>	<u>South Wastewater</u>	<u>Total</u>
Operating revenues:						
Sales	\$ 7,086,466	\$ 8,309,331	\$ 672,309	\$ 2,313,986	\$ 3,041,911	\$ 21,424,003
Penalties, surcharges and fees	70,367	466,007	8,486	640	120,257	665,757
Total operating revenues	<u>7,156,833</u>	<u>8,775,338</u>	<u>680,795</u>	<u>2,314,626</u>	<u>3,162,168</u>	<u>22,089,760</u>
Operating expenses:						
Water pumps and tanks	138,202	-	-	25,549	-	163,751
Depreciation	252,400	-	-	41,954	-	294,354
Water intake and treatment	1,717,447	-	-	1,487,111	-	3,204,558
Depreciation	210,696	-	-	90,009	-	300,705
Water transmission and distribution	2,594,398	-	-	310,344	-	2,904,742
Depreciation	566,146	-	-	50,590	-	616,736
Wastewater lines and collection	-	1,421,767	-	-	10,082	1,431,849
Depreciation	-	633,233	-	-	39,471	672,704
Wastewater pumping stations	-	1,234,181	-	-	242,833	1,477,014
Depreciation	-	293,917	-	-	25,404	319,321
Wastewater pretreatment and treatment	-	3,077,019	-	-	2,089,723	5,166,742
Depreciation	-	842,761	-	-	195,876	1,038,637
Stormwater	-	-	1,193,876	-	-	1,193,876
Depreciation	-	-	387,842	-	-	387,842
Total operating expenses	<u>5,479,289</u>	<u>7,502,878</u>	<u>1,581,718</u>	<u>2,005,557</u>	<u>2,603,389</u>	<u>19,172,831</u>
Operating income (loss)	<u>1,677,544</u>	<u>1,272,460</u>	<u>(900,923)</u>	<u>309,069</u>	<u>558,779</u>	<u>2,916,929</u>
Non-operating revenues (expenses):						
Gain on disposal of capital assets	10,210	-	-	-	-	10,210
Investment income	181,866	-	-	-	-	181,866
Grant revenue	574,583	-	-	-	-	574,583
Miscellaneous revenue	109,402	-	-	-	-	109,402
Interest expense	(106,519)	(580,561)	(97,758)	(49,207)	(19,358)	(853,403)
Total non-operating revenues (expenses)	<u>769,542</u>	<u>(580,561)</u>	<u>(97,758)</u>	<u>(49,207)</u>	<u>(19,358)</u>	<u>22,658</u>
Change in net position before distribution and contributions	<u>\$ 2,447,086</u>	<u>\$ 691,899</u>	<u>\$ (998,681)</u>	<u>\$ 259,862</u>	<u>\$ 539,421</u>	<u>\$ 2,939,587</u>



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

Water and Sewer Commission
Henderson Water Utility

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 Henderson Water Utility as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Henderson Water Utility’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Henderson Water Utility’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Henderson Water Utility’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Henderson Water Utility'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 financial statements. 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*.

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 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.

Owensboro, Kentucky
November 17, 2020



HENDERSON WATER UTILITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2019

Significant Deficiency:

Finding 2019-001:

The individual unit costing utilized by the inventory software to calculate ending inventory cannot consistently and readily be reconciled to the first-in first-out (FIFO) method.

Recommendation:

Management should establish policies and procedures that ensure that individual unit costs are being reviewed for accuracy and substantiated by supporting documentation.

Current Status:

Management performed a detailed review of each inventory item making sure unit cost could be established and that any items that had not been used in the past five years and considered obsolete were removed from the inventory.