

EXHIBIT

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PADUCAH WATER WORKS

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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WILLIAMS WILLIAMS & LENTZ
CERTIFIED PUBLIC ACCOUNTANTS

J. David Bailey, III
Roger G. Harris
Michael F. Karnes
Mark A. Thomas
Ashley C. Grooms
Kelly D. Scruggs
Benjamin D. Teer

Independent Auditor's Report

The Board of Directors
Paducah Water Works
Paducah, Kentucky

We have audited the accompanying financial statements of the business-type activities of Paducah Water Works, a component unit of the City of Paducah, Kentucky, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Paducah Water Works' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Paducah Water Works, as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

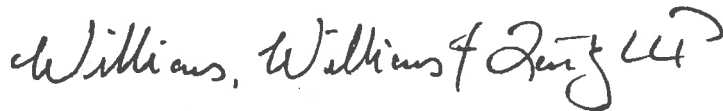
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and OPEB schedules on pages 3 through 7 and 28 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2020, on our consideration of Paducah Water Works' internal control over financial reporting and 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 Paducah Water Works' 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 Paducah Water Works' internal control over financial reporting and compliance.



Paducah, Kentucky
September 28, 2020

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of Paducah Water's financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements, which begin on page 8.

Financial Highlights

- PWW's net position increased by \$2.157 million (4.10%) as a result of this year's operations.
- Net income before capital contributions increased by \$875 thousand to \$1.26 million.
- Operating revenues increased by \$898 thousand (7.80%) to \$12.361 million, due mainly to an increase in water sales revenue of approximately \$932 thousand. The majority of the increase was attributable to the new customer charge which provided \$635 thousand of the increase.
- Operating expenses excluding depreciation increased by \$498 thousand (6.00%) to \$8.768 million.

Using This Annual Report

This annual report consists of a series of financial statements: The Statement of Net Position, The Statements of Revenues, Expenses and Changes in Net Position and The Statement of Cash Flows. These statements provide information about the activities of PWW and present a long-term view of the finances.

The Statement of Net Position

The Statement of Net Position includes all of PWW's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The difference between assets and liabilities is reported as net position. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position of PWW is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position identifies the revenues generated, expenses incurred and net position change during the period reported. This statement measures the success of PWW's operations over the reporting period and can be used to determine whether PWW has successfully recovered all its costs through its water rates and other charges.

The Statement of Cash Flows

The Statement of Cash Flows provides information relating to PWW's cash receipts and cash disbursements during the fiscal year. The statement reports net changes in cash resulting from operations, investing and financing activities, and helps the user assess where cash came from, what cash was used for, and what changes occurred in cash balances during the reporting period.

Financial Analysis

Net Position

Net position may serve over time as a useful indicator of PWW's financial position. Net position was \$54.72 million at June 30, 2020 compared to \$52.56 million at June 30, 2019, an increase of \$2.157 million or 4.10%.

Condensed Statements of Net Position
(amounts expressed in thousands)

	As of June 30,		Increase	Percent
	2020	2019	(Decrease)	Change
Current and other assets	\$ 14,168	\$ 13,151	\$ 1,017	8%
Capital assets, net	58,324	56,097	2,227	4%
Deferred outflows	<u>2,807</u>	<u>2,447</u>	<u>360</u>	15%
Total assets and deferred outflows	<u>75,299</u>	<u>71,695</u>	<u>3,604</u>	5%
Current liabilities	3,230	2,662	568	21%
Long-term liabilities	16,293	15,546	747	5%
Deferred inflows	<u>1,060</u>	<u>926</u>	<u>134</u>	14%
Total liabilities and deferred inflows	<u>20,583</u>	<u>19,134</u>	<u>1,449</u>	8%
<u>Net assets:</u>				
Invested in capital assets	52,094	49,405	2,689	5%
Restricted	-	-	-	0%
Unrestricted	<u>2,624</u>	<u>3,156</u>	<u>(532)</u>	-17%
Total net position	<u>\$ 54,718</u>	<u>\$ 52,561</u>	<u>\$ 2,157</u>	4%

By far, the largest portion of PWW's net position reflects its investment in capital assets (i.e., utility plant), less any related debt used to acquire those assets that is still outstanding. Although PWW's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities.

The remaining balance of net position represents unrestricted net position and may be used to meet PWW's ongoing obligations to creditors.

The increase in net position during the current fiscal year indicates an improved financial position.

Change in Net Position

While the statements of net position show the make-up of PWW's assets, liabilities and net position at year-end, the statements of revenues, expenses and changes in net position provide information on the source of the change during the year. The two sources of the increase in net position of \$2.157 million were income before capital contributions (formerly net revenue) of \$1.259 million and capital contributions of \$898 thousand.

Condensed Statements of Revenues, Expenses and Changes in Net Position
(amounts expressed in thousands)

	Years ended June 30,		Increase	Percent
	2020	2019	(Decrease)	Change
Operating revenues	\$ 12,361	\$ 11,463	\$ 898	8%
Nonoperating revenues	192	205	(13)	-6%
Total revenues	<u>12,553</u>	<u>11,668</u>	<u>885</u>	8%
Operating expenses	8,768	8,270	498	6%
Nonoperating expenses	2,526	3,013	(487)	-16%
Total expenses	<u>11,294</u>	<u>11,283</u>	<u>11</u>	0%
Income before capital contributions (formerly net revenue)	1,259	385	874	227%
Contributions	898	411	487	118%
Increase in net position	2,157	796	1,361	171%
Beginning net position	52,561	51,765	796	2%
Prior period adjustment	-	-	-	
Ending net position	<u>\$ 54,718</u>	<u>\$ 52,561</u>	<u>\$ 2,157</u>	4%

Income before capital contributions increased by \$874 thousand from the previous year. Operating revenues increased by \$898 thousand mainly due to increased water sales revenue from the new customer charge and operating expenses increased by \$498 thousand due largely to an increase of total pension expense of \$309 thousand. Non-operating expenses decreased by \$487 mainly because of the Riverbank Filtration project being abandoned at a loss of \$548 thousand in prior year.

Capital Assets and Long-Term Debt

PWW's net investment in plant, lines, and other facilities increased by \$2.228 million in FY 2020. Major additions included the continued meter change-out program (\$1.029 million) and the main replacement project at Joe Clifton Drive (\$439 thousand).

During FY 2020, long-term debt increased by \$747 thousand due to an increase in Pension related liabilities of \$1.213 million. This was offset by \$461 thousand in principal payments that were made on notes payable. Total long-term debt as of June 30, 2020 is \$16.293 million. This consists of KIA debt that was assumed in order to connect the Paducah system with the Reidland system as well as improvements to the Reidland area system (\$3.828 million), KIA debt for the 24" transmission line project (\$1.936 million) and Net Pension Liability and Net Postemployment Benefits Other than Pension Liability of the County Employees Retirement System (\$10.528 million).

Budgetary Controls

PWW operates its general activities in accordance with a budget adopted by its Board. As demonstrated by the statements included in the financial section of this report, PWW continues to meet its responsibility for sound financial management.

Total operating revenues for the period were \$12.361 million compared to a budget of \$12.447 million. Total operating expense was over the budgeted amount for the fiscal year ended by 7.60%. Actual operating expense was \$8.767 million compared to a budget of \$8.145 million. This overage was mainly caused by pension expense being \$995 thousand more than actual pension contributions related to GASB 68 & 75.

Currently Known Facts, Decisions or Conditions

This section discusses currently known facts, decisions or conditions as of the date of the auditor's report that are expected to have a significant effect on PWW's financial position (net position) or results of operations (revenues, expenses, and other changes in net position).

PWW has a significant percentage of water mains that are aging. Over the next twenty-five years, these water mains will need to be replaced at what will be a significant expense to the rate payers. Management estimates that nearly \$100 million will need to be spent over the next fifty to sixty years replacing aging water mains. In FY2010, a Capital Replacement and Expansion fee was instituted for all customers based on meter size to begin to address this need; this fee resulted in \$2.572 million to re-invest in the system for FY2020.

Water usage has continued to decrease across the country as homes have become more water-use efficient. This lower water usage along with higher power, pension and regulatory costs have placed a significant burden on operating funds for PWW. Beginning July 1, 2019, PWW has instituted a flat customer charge of \$2 per customer and that fee will increase to \$4 per customer by July 2021. This will add over \$1.2 million to operating revenue each year regardless of water sales.

Requests for Additional Information

This financial report is designed to provide a general overview of PWW's finances for all those with an interest in PWW's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Controller
Paducah Water
P.O. Box 2377
Paducah, KY 42002-2377

Statement of Income and Expense
For the twelve months ended June 30, 2020
(amounts expressed in thousands)

	Actual	Budget	Increase (Decrease)	Percent Difference
Operating revenue	\$ 12,361	\$ 12,447	\$ (86)	-1%
Operating expenses				
Pumping & purification	2,890	2,857	33	1%
Distribution & engineering	2,515	2,175	340	16%
Office & administrative	2,311	2,065	246	12%
Other	1,052	1,048	4	0%
Total expenses	<u>8,768</u>	<u>8,145</u>	<u>623</u>	8%
Net operating income	<u>3,593</u>	<u>4,302</u>	<u>(709)</u>	-16%
Other income (expenses)				
Interest income	142	200	(58)	-29%
Other	50	-	50	0%
Depreciation	(2,428)	(2,460)	32	-1%
Interest on funded debt	(98)	(98)	-	0%
	<u>(2,334)</u>	<u>(2,358)</u>	<u>24</u>	-1%
Net Revenue	<u>\$ 1,259</u>	<u>\$ 1,944</u>	<u>\$ (685)</u>	-35%

BASIC FINANCIAL STATEMENTS

PADUCAH WATER WORKS
STATEMENTS OF NET POSITION
JUNE 30

ASSETS

	2020	2019
Current Assets:		
Cash and cash equivalents	\$ 1,593,491	\$ 1,168,513
Accounts receivable	1,843,818	1,736,108
Material and supplies inventory	957,645	901,275
Other current assets	1,191,624	909,914
Total current assets	5,586,578	4,715,810
Capital Assets:		
Utility plant in service	100,763,230	96,825,527
Construction in progress	1,333,061	1,074,001
Totals	102,096,291	97,899,528
Less accumulated depreciation	43,771,799	41,802,866
Total capital assets	58,324,492	56,096,662
Other Assets:		
KIA replacement reserve	202,350	172,400
Cash, designated	8,379,398	7,996,038
Certificates of deposit, designated	-	266,398
Total other assets	8,581,748	8,434,836
Total assets	72,492,818	69,247,308

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension plan outflows	1,367,104	1,332,579
Deferred pension plan contributions	601,088	494,294
Deferred postemployment benefits other than pensions outflows	647,410	426,247
Deferred postemployment benefits other than pensions contributions	191,867	194,214
Total deferred outflows of resources	2,807,469	2,447,334

LIABILITIES

Current Liabilities:		
Notes payable, KIA	466,249	460,856
Accounts payable, trade	1,019,713	620,193
Asset retirement obligation	-	42,130
Other accrued expenses and current liabilities	1,743,608	1,538,509
Total current liabilities	3,229,570	2,661,688
Long-Term Debt:		
Notes payable, KIA	5,764,421	6,230,670
Net pension liability	8,496,902	7,212,565
Net postemployment benefits other than pensions liability	2,031,499	2,102,559
Total long-term debt	16,292,822	15,545,794
Total liabilities	19,522,392	18,207,482

DEFERRED INFLOWS OF RESOURCES

Deferred pension plan inflows	335,983	527,449
Deferred postemployment benefits other than pensions inflows	723,983	399,147
Total deferred inflows of resources	1,059,966	926,596

NET POSITION

Net investment in capital assets	52,093,822	49,405,136
Unrestricted	2,624,107	3,155,428
TOTAL NET POSITION	\$ 54,717,929	\$ 52,560,564

See notes to financial statements.

PADUCAH WATER WORKS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Metered water sales	\$ 8,981,882	\$ 8,049,670
Fire protection fees	163,261	154,949
Municipal water sales	54,752	52,788
Collection fees and late payment charges	360,834	407,502
Capital replacement fee	2,571,882	2,532,357
Miscellaneous	228,791	266,201
	<u>12,361,402</u>	<u>11,463,467</u>
Operating Expenses:		
Pumping and purification	2,890,501	2,799,252
Transmission and distribution	2,514,698	2,314,274
Office and administrative	2,310,657	2,185,111
Other	1,051,869	970,882
	<u>8,767,725</u>	<u>8,269,519</u>
Total operating expenses		
	<u>8,767,725</u>	<u>8,269,519</u>
Operating income	<u>3,593,677</u>	<u>3,193,948</u>
Nonoperating Revenues (Expenses):		
Interest income	141,546	175,947
Other interest	(97,773)	(104,100)
Depreciation	(2,428,051)	(2,323,823)
Gain (loss) on disposal of capital asset	13,544	(586,239)
Other	36,747	29,226
	<u>36,747</u>	<u>29,226</u>
Net nonoperating revenues (expenses)	<u>(2,333,987)</u>	<u>(2,808,989)</u>
Income before capital contributions	<u>1,259,690</u>	<u>384,959</u>
Capital Contributions:		
Connection fees	220,509	196,550
Donated surplus	677,166	214,057
	<u>677,166</u>	<u>214,057</u>
Total capital contributions	<u>897,675</u>	<u>410,607</u>
Change in net position	2,157,365	795,566
Net position - beginning	<u>52,560,564</u>	<u>51,764,998</u>
NET POSITION, ENDING	<u><u>\$ 54,717,929</u></u>	<u><u>\$ 52,560,564</u></u>

PADUCAH WATER WORKS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 12,253,692	\$ 11,521,044
Payments to suppliers	(4,374,746)	(4,056,338)
Payments to employees	(3,211,463)	(3,139,189)
	<u>4,667,483</u>	<u>4,325,517</u>
Net cash provided by operating activities		
Cash Flows from Capital and Related Financing Activities:		
Capital contributions	220,509	196,550
Acquisitions of capital assets	(3,978,715)	(3,103,013)
Proceeds from sale of assets	50,291	29,226
Principal paid on capital debt	(460,856)	(455,532)
Interest paid on capital debt	(98,317)	(104,637)
	<u>(4,267,088)</u>	<u>(3,437,406)</u>
Net cash used by capital and related financing activities		
Cash Flows from Investing Activities:		
Purchase of investments	(1,141)	(2,650)
Sale of investments	267,538	-
Interest on investments	141,546	175,947
	<u>407,943</u>	<u>173,297</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	<u>808,338</u>	<u>1,061,408</u>
Cash and cash equivalents, beginning of year	<u>9,164,551</u>	<u>8,103,143</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,972,889</u>	<u>\$ 9,164,551</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,593,677	\$ 3,193,948
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(107,710)	57,577
(Increase) decrease in inventory	(56,370)	(87,361)
(Increase) decrease in other current assets	(281,711)	320,059
(Increase) decrease in deferred outflows of resources	(360,135)	549,280
Increase (decrease) in accounts payable	399,520	(5,706)
Increase (decrease) in asset retirement obligation	(42,130)	42,130
Increase (decrease) in accrued payroll	23,917	8,868
Increase (decrease) in other current liabilities	151,778	13,950
Increase (decrease) in deferred inflows of resources	133,370	149,336
Increase (decrease) in net pension liability	1,284,337	340,958
Increase (decrease) in net OPEB liability	(71,060)	(257,522)
	<u>\$ 4,667,483</u>	<u>\$ 4,325,517</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		

See notes to financial statements.

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

Paducah Water Works is a municipal utility, purchased by the City of Paducah in 1930. The area served is virtually all of McCracken County, including a separate water district, as well as a small portion of Marshall County and Graves County. Effective July 18, 2012, the Hendron Water District merged with Paducah Water Works. Paducah Water Works assumed control of Hendron Water District on August 1, 2012.

Paducah Water Works serves 27,300 customers with 14,900 of these in the City of Paducah and the remainder in the areas previously described.

Basis of Accounting

Paducah Water Works' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. This requires the accrual basis of accounting for proprietary entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Paducah Water Works is a single fund government and a component unit of the City of Paducah with the Board of Directors appointed by the Mayor. Paducah Water Works has no oversight responsibility for any other entity since control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

Basic Financial Statements

Paducah Water Works' basic financial statements include the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows. Paducah Water Works has only one fund that uses a set of self-balancing accounts comprised of its assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses.

The statements are prepared on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

Revenue Recognition

Billings for both the regular water rates and the capital replacement fees are billed the month following the month of service. The amount of water service provided from the last billing for the prior month through the end of the current month is recorded as accounts receivable in the statement of net position and revenue in the statement of revenues, expenses, and changes in net position. All water service provided is recorded in the period in which the service was provided.

Cash and Cash Equivalents

For purposes of reporting cash flows, Paducah Water Works does not consider certificates of deposit, regardless of maturity, as cash equivalents. Paducah Water Works, also, does not consider the KIA replacement reserve as cash equivalents.

Materials and Supplies Inventory

Materials and supplies inventory is valued at weighted average cost.

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 1 - Summary of Significant Accounting Policies (Continued):

Depreciation

Depreciation is computed on the straight-line basis over the estimated useful lives of various classes of assets. It is Paducah Water Works' policy to include amortization expense on assets acquired under capital leases with depreciation expense on owned assets.

Distribution mains, service lines, standpipes, and tanks	60 years
Booster station, raw water intake, and treatment plant equipment	40 years
Meters	25 years
Hydrants	40 years
Buildings	40-60 years
Other equipment	5-15 years

Net Position

Net position is displayed in three components:

- a. Investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation, and unpaid debt financing.
- b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that does not meet the definition of "restricted" or "investment in capital assets."

Capital Contributions

Capital contributions are derived from three main sources: 1) customers, in the form of tap fees; 2) developers, when they construct and pay for water lines and then donate these additions to Paducah Water Works; and 3) other governments, in the form of grant contributions for capital assets. Developer contributions are recorded at the developer's cost and are depreciated over their estimated useful lives using the straight-line method.

Employee Compensated Absences

Employees of Paducah Water Works are entitled to paid vacations and sick days depending on job classification, length of service, and other factors and, accordingly, Paducah Water Works has recorded the accrual in the accompanying financial statements.

Deferred Outflows and Deferred Inflows

Deferred outflow of resources represents a consumption of net position by Paducah Water Works that is applicable to a future reporting period and will not be recognized as an outflow of resources (expenditure/expense) until that time. Deferred inflow of resources represents an acquisition of net position by Paducah Water Works that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time.

Paducah Water Works reports deferred inflows and outflows of resources with respect to their participation in the County Employee Retirement System as discussed further in note 7.

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 1 - Summary of Significant Accounting Policies (Continued):

Pensions and Postemployment Benefits Other Than Pensions

For purposes of measuring the net pension liability, the net postemployment benefits other than pensions (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, pension expense, and OPEB expense information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from the plans' fiduciary net position has been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Operating Revenues and Expenses

Operating revenues consist primarily of charges to customers for the sale of water. Operating expenses consist of the cost of providing water, including administrative expenses. All other revenues and expenses are classified as non-operating.

Bad Debts

The Company uses the direct write-off method in recognizing bad debts expense. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. The Company expensed \$20,464 and \$31,725 in bad debts during the years ended June 30, 2020 and 2019, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events were evaluated through September 28, 2020, which is the date the financial statements were available to be issued. The Industrial Development Authority donated land to Paducah Water Works on August 20, 2020 valued up to \$25,000. This land is to be used to construct a one million gallon water tank in the Cairo Road pressure zone to accommodate growth and zone demands.

Note 2 - Deposits:

The investment policies of Paducah Water Works are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2020 and 2019, Paducah Water Works' financial institution balances were fully collateralized as required by State statute.

Deposits consist of a money market and checking accounts. The money market account is reported at cost which represents fair market value. The financial institution balances of Paducah Water Works' deposits were \$9,942,611 for the year ended June 30, 2020. The book balance was \$9,972,889. Of the various financial institution balances at June 30, 2020, \$250,000 was insured by federal depository insurance, and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the utility's deposits may not be returned to it. The remaining balance of \$9,692,611 was uninsured and collateralized with securities held by the pledging bank's agent not in Paducah Water Works' name.

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 2 - Deposits (Continued):

Custodial credit risk for deposits is the risk that in the event of a bank failure, the utility's deposits may not be returned or Paducah Water Works will not be able to recover collateral securities in the possession of an outside party. Paducah Water Works' policy requires all investments be made in accordance with applicable legal requirements with consideration of the safety of its investments. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Note 3 - Reserve Fund:

As required by the Note Agreement with the Kentucky Infrastructure Authority for the Reidland Interchange Project, Paducah Water Works is required on December 1st each year beginning December 1, 2011 to transfer \$18,750 into replacement reserve until the account balance reaches \$187,500. At June 30, 2020 and 2019, \$168,750 and \$150,000 had been transferred into a replacement reserve account.

As required by the Note Agreement with the Kentucky Infrastructure Authority for the 24" Water Main Project, Paducah Water Works is required on December 1st each year beginning December 1, 2017 to transfer \$11,200 into replacement reserve until the account balance reaches \$112,000. At June 30, 2020 and 2019, \$33,600 and \$22,400 had been transferred into a replacement reserve account.

Note 4 - Capital Assets:

A summary of capital asset activity for the year ended June 30, 2020, is as follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2020</u>
Capital assets	\$ 97,899,528	\$ 4,660,832	\$ (459,118)	\$102,101,242
Accumulated depreciation	(41,802,866)	(2,433,002)	459,118	(43,776,750)
CAPITAL ASSETS, NET	<u>\$ 56,096,662</u>	<u>\$ 2,227,830</u>	<u>\$ -</u>	<u>\$ 58,324,492</u>

A summary of capital asset activity for the year ended June 30, 2019, is as follows:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2019</u>
Capital assets	\$ 95,434,102	\$ 3,317,070	\$ (851,644)	\$ 97,899,528
Accumulated depreciation	(39,744,448)	(2,323,823)	265,405	(41,802,866)
CAPITAL ASSETS, NET	<u>\$ 55,689,654</u>	<u>\$ 993,247</u>	<u>\$ (586,239)</u>	<u>\$ 56,096,662</u>

Note 5 - Notes Payable, KIA:

Notes payable, KIA represents financing from the Kentucky Infrastructure Authority. For the Reidland Interchange note, the interest rate is 1.00% with a 0.25% annual service fee. The 24" Water Main note has an interest rate of 1.75% with a 0.25% annual service fee. There are no terms specified in the debt agreements as to significant events of default or termination events with finance-related consequences. There are no acceleration clauses.

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension and Insurance Funds

The CERS also provides other post-employment benefits through the Kentucky Retirement Systems Insurance Fund (insurance fund), which was established to provide hospital and medical insurance for members receiving benefits from CERS. The insurance fund is a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Kentucky Retirement Systems. The insurance fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The amount of contribution paid by the insurance fund is based upon years of service. All participants enrolled in CERS are automatically enrolled in both the insurance fund and the pension fund. Information regarding the insurance fund is contained in the financial statements of the Kentucky Retirement Systems.

The Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing or calling the plan:

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124
(502) 564-4646

Contributions. Contribution rates are established by the Kentucky Revised Statutes. Non-hazardous plan members who began participating prior to September 1, 2008 are required to contribute 5.00% of their annual creditable compensation. Plan members who began participating on or after September 1, 2008 are required to contribute an additional 1.00% for retirement health insurance coverage. Plan members who began participating on or after January 1, 2014 are required to contribute to the Cash Balance Plan which is a hybrid plan with characteristics of both a defined benefit plan and a defined contribution plan. Members in the Cash Balance Plan are required to contribute at the same rates as plan members who began participating on or after September 1, 2008. The employer contribution plan rate for non-hazardous plan members was 24.06% for the year ended June 30, 2020. The required contribution rates for fiscal years ending June 30, 2019 and 2018 were 21.48% and 19.18%, respectively. The required contribution rates are made up of a portion that is attributed to the insurance fund and a portion attributed to the pension fund. For fiscal year ended June 30, 2020, the pension plan portion and the insurance fund portions were 19.30% and 4.76%. These percentages were 16.22% and 5.26% for fiscal year ended June 30, 2019 and 14.48% and 4.70% for fiscal year ended June 30, 2018, respectively. The pension contributions for fiscal years ended June 30, 2020, 2019, and 2018 were \$601,088, \$494,294, and \$425,015, respectively. The insurance contributions (excluding the implicit subsidy) for fiscal years ended June 30, 2020, 2019, and 2018 were \$148,248, \$160,295, and \$137,954, respectively. The actuarially determined contribution requirements of plan members and Paducah Water Works are established and may be amended by the KRS Board of Trustees.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At June 30, 2020 and 2019, Paducah Water Works reported a liability of \$8,496,902 and \$7,212,565, respectively, for its proportionate share of the net pension liability. The net pension liability at June 30, 2020 and 2019 was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and 2017, respectively. For the June 30, 2019 measurement, the total pension liability was rolled-forward from the actuarial valuation date of June 30, 2018 to the plan's fiscal year ending June 30, 2019 using generally accepted actuarial principles. For the June 30, 2018 measurement, the total pension liability was rolled-forward from the actuarial valuation date of June 30, 2017 to the plan's fiscal year ending June 30, 2018 using generally accepted actuarial principles. Paducah Water Works' proportion of the net pension liability was based on a projection of Paducah Water Works' share of contributions to the pension plan relative to the total contributions of all participating employers, actuarially determined. At June 30, 2020 and 2019, Paducah Water Works' proportion was 0.120814% and 0.118427%.

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension Fund

As a result of its requirement to contribute to CERS pension fund, Paducah Water Works recognized pension expenses of \$1,552,639 and \$1,198,412 for the years ended June 30, 2020 and 2019, respectively. At June 30, 2020, Paducah Water Works reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 163,107	\$ 300,081
Difference between expected and actual experience	216,951	35,902
Changes of assumptions	859,983	-
Change in proportion and differences between employer contributions and proportionate share of contributions	127,063	-
Contributions subsequent to the measurement date	<u>601,088</u>	<u>-</u>
TOTALS	<u>\$1,968,192</u>	<u>\$ 335,983</u>

At June 30, 2019, Paducah Water Works reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 335,390	\$ 421,872
Difference between expected and actual experience	235,254	105,577
Changes of assumptions	704,877	-
Change in proportion and differences between employer contributions and proportionate share of contributions	57,058	-
Contributions subsequent to the measurement date	<u>494,294</u>	<u>-</u>
TOTALS	<u>\$1,826,873</u>	<u>\$ 527,449</u>

Deferred outflows of resources in the amount of \$494,294 related to pensions resulting from Paducah Water Works' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2021	\$653,355
2022	264,465
2023	103,585
2024	9,716

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension Fund

The net pension liability as of June 30, 2020, is based on the June 30, 2018, actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2019 using generally accepted actuarial principles. The net pension liability as of June 30, 2019, is based on the June 30, 2017 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2018 using generally accepted actuarial principles. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Deferred outflows and inflows related to differences between expected and actual experience, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a period that represents the weighted average of the remaining service life of active and inactive members of the plan (3.40 years and 3.46 years for June 30, 2019 and June 30, 2018, respectively).

Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information for the actuarial valuation as of June 30, 2019 was based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles. An actuarial experience study was conducted for the five-year period July 1, 2013 to June 30, 2018. Subsequent to the actuarial valuation date (June 30, 2018), but prior to the measurement date, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review and the 2018 actuarial experience study, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2019 (a complete list of actuarial assumptions is listed in the Required Supplementary Information section of this report):

Inflation	2.30%
Salary increases, average, including inflation	3.30% to 10.30% varies by service
Investment rate of return, net of pension plan investment expense including inflation	6.25%
Payroll growth rate	2.00%

Mortality - The mortality table used for active members is PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the mortality table used is 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 total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	2.30%
Salary increases, average, including inflation	3.05%
Investment rate of return, net of pension plan investment expense including inflation	6.25%
Payroll growth rate	2.00%

Mortality - The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50.00% for males and 30.00% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension Fund

There have been no changes in benefit terms since the plan's fiscal year ending June 30, 2018 in which House Bill 185 updated the provisions for active members who die in the line of duty.

The long-term expected rate of return on plan assets 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. For the June 30, 2019 actuarial calculation, the target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US 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%
Core Bonds	13.50%	1.35%
Cash Equivalent	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
Total	<u>100.00%</u>	

For the June 30, 2018 actuarial calculation, the target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

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

Discount rate. The discount rate used to measure the total pension liability was 6.25% at June 30, 2019 and 2018. The discount rate determination does not use a municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate of projected compensation over the remaining 24 year (closed) amortization period of the unfunded actuarial accrued liability. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the closed payroll for existing members.

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Pension Fund

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

	1.00% Decrease 5.25%	Current Discount 6.25%	1.00% Increase 7.25%
Paducah Water Works' proportionate share of the net pension liability	\$10,627,215	\$ 8,496,902	\$ 6,721,308

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems financial report.

Payables to the pension plan. At June 30, 2020 and 2019, the financial statements include no payables to CERS. These are legally required contributions to the plan. These amounts are not accounted for in the net pension liability.

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB. At June 30, 2020 and 2019, Paducah Water Works reported a liability of \$2,031,499 and \$2,102,559, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability at June 30, 2020 and 2019 was measured as of June 30, 2019 and 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and 2017, respectively. For the June 30, 2020 measurement, the total OPEB liability was rolled-forward from the actuarial valuation date of June 30, 2018 to the plan's fiscal year ending June 30, 2019 using generally accepted actuarial principles. For the June 30, 2019 measurement, the total OPEB liability was rolled-forward from the actuarial valuation date of June 30, 2017 to the plan's fiscal year ending June 30, 2018 using generally accepted actuarial principles. Paducah Water Works' proportion of the net OPEB liability was based on a projection of Paducah Water Works' share of contributions to the OPEB plan relative to the total contributions of all participating employers, actuarially determined. At June 30, 2020 and 2019, Paducah Water Works' proportion was 0.120782% and 0.118422%.

The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB) (Continued)

As a result of its requirement to contribute to the CERS insurance fund, Paducah Water Works recognized OPEB expenses of \$228,237 and \$268,397 for the years ended June 30, 2020 and 2019, respectively. At June 30, 2020, Paducah Water Works reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Net differences between projected and actual earnings on OPEB plan investments	\$ 13,381	\$103,611
Difference between expected and actual experience	-	612,950
Changes of assumptions	601,139	4,020
Change in proportion and differences between employer contributions and proportionate share of contributions	32,890	3,402
Contributions subsequent to the measurement date	<u>191,868</u>	<u>-</u>
TOTALS	<u>\$839,278</u>	<u>\$723,983</u>

At June 30, 2019, Paducah Water Works reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Net differences between projected and actual earnings on OPEB plan investments	\$ -	\$144,825
Difference between expected and actual experience	-	245,025
Changes of assumptions	419,912	4,858
Change in proportion and differences between employer contributions and proportionate share of contributions	6,335	4,439
Contributions subsequent to the measurement date	<u>194,214</u>	<u>-</u>
TOTALS	<u>\$620,461</u>	<u>\$399,147</u>

Deferred outflows of resources related to OPEB, in the amount of \$194,214 related to OPEB resulting from Paducah Water Works' contributions subsequent to the measurement date and before the end of the fiscal year will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30</u>	
2021	\$ (9,692)
2022	(9,692)
2023	18,996
2024	(35,973)
2025	(34,587)
Thereafter	(5,625)

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB) (Continued)

The net OPEB liability as of June 30, 2020 is based on the June 30, 2018 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2019 using generally accepted actuarial principles. The net OPEB liability as of June 30, 2019 is based on the June 30, 2017 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2018 using generally accepted actuarial principles. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Deferred outflows and inflows related to differences between expected and actual experience, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a period that represents the weighted average of the remaining service life of active and inactive members of the plan (6.27 years and 6.30 years for June 30, 2019 and June 30, 2018, respectively).

Actuarial assumptions. The total OPEB liability, net OPEB liability, and sensitivity information for the actuarial valuation as of June 30, 2019 was based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles. An actuarial experience study was conducted for the five-year period July 1, 2013 to June 30, 2018. Subsequent to the actuarial valuation date (June 30, 2018), but prior to the measurement date, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review and the 2018 actuarial experience study, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2019 (a complete list of actuarial assumptions is listed in the Required Supplementary Information section of this report):

Inflation	2.30%
Salary increases, average, including inflation	3.30% to 10.30%, varies by service
Investment rate of return, net of OPEB plan investment expense, including inflation	6.25%
Payroll growth rate	2.00%
Municipal bond index rate	
Prior measurement date	3.62%
Measurement date	3.13%
Single equivalent interest rate (discount rate), net of OPEB plan investment expense, including inflation	
Prior measurement date	5.85%
Measurement date	5.68%

Healthcare cost trend rates - Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years (Pre-65). Initial trend rate starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years (Post-65).

The 2018 Actuarial Experience Study uses different mortality tables from the prior 2013 Actuarial Experience Study. The mortality table used for active members is PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the mortality table used is 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.

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Prior to the 2018 Actuarial Experience Study, the following tables were used in the 2013 Actuarial Experience Study. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50.00% for males and 30.00% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

There have been no changes in benefit terms since the plan's fiscal year ending June 30, 2018 in which House Bill 185 updated the provisions for active members who die in the line of duty.

The long-term expected rate of return on plan assets 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. For the June 30, 2019 actuarial calculation, the target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US 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%
Core Bonds	13.50%	1.35%
Cash Equivalent	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
Total	<u>100.00%</u>	

For the June 30, 2018 actuarial calculation, the target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

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

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Discount rate. The discount rate used to measure the total OPEB liability was 5.68% and 5.85% at June 30, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate of projected compensation over the remaining 24 year (closed) amortization period of the unfunded actuarial accrued liability. The cost associated with the implicit employer subsidy was not included in the calculation of the KRS's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments from the retirement system, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent interest rate. There was a change in the Municipal Bond Index Rate from the prior measurement date to the measurement date, so as required under GASB 75, the expected rate of return at the measurement date of 6.25% was calculated using the Municipal Bond Index Rate as of the measurement date of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 75.

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

	1.00% Decrease 4.68%	Current Discount 5.68%	1.00% Increase 6.68%
Paducah Water Works' proportionate share of the net OPEB liability	\$2,721,373	\$2,031,499	\$1,463,089

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

	1.00% Decrease	Current Trend Rate	1.00% Increase
Paducah Water Works' proportionate share of the net OPEB liability	\$1,510,836	\$2,031,499	\$2,662,864

OPEB plan fiduciary net position

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

Payables to the OPEB plan

At June 30, 2020 and 2019, the financial statements include no payables to CERS. These are legally required contributions to the plan. These amounts are not accounted for in the net OPEB liability.

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 7 - Employee Benefits (Continued):

County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Health Insurance

Paducah Water Works no longer has a self-insured health plan but rather a traditional health insurance plan through Anthem. A majority of the cost of the plan is borne by Paducah Water Works. Health insurance expense was \$780,050 and \$734,560 for years ended June 30, 2020 and 2019, respectively.

Note 8 - Disclosures Regarding the Statement of Cash Flows:

For purposes of the Statement of Cash Flows, the composition of cash and cash equivalents at June 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$1,593,491	\$1,168,513
Cash, designated	8,379,398	7,996,038
TOTAL CASH AND CASH EQUIVALENTS	\$9,972,889	\$9,164,551

Noncash capital and related financing activities:

	<u>2020</u>	<u>2019</u>
NONCASH CAPITAL CONTRIBUTIONS	\$ 677,166	\$ 214,057

Note 9 - Other Current Assets:

Other Current Assets consisted of the following:

	<u>2020</u>	<u>2019</u>
Miscellaneous receivable	\$ 790,347	\$ 699,486
Prepaid insurance	69,036	113,407
Health insurance premium receivable	7,071	54,431
Flex advance receivable	-	-
Other	325,170	42,590
TOTAL OTHER CURRENT ASSETS	\$1,191,624	\$ 909,914

Note 10 - Other Accrued Expenses and Current Liabilities:

Other accrued expenses and current liabilities consisted of the following:

	<u>2020</u>	<u>2019</u>
Accrued payroll and payroll withholdings	\$ 98,763	\$ 73,923
Accrued sales tax	29,859	27,142
City refuse and dumpster payable	180,969	163,146
Sewer service collections payable	729,223	625,572
Deposit collections payable	69,865	81,255
Accrued sick and vacation time	331,766	303,770
Customer advances	38,828	38,828
Replacement reserve	202,350	172,400
Other	61,985	52,473
TOTAL ACCRUED EXPENSES AND CURRENT LIABILITIES	\$1,743,608	\$1,538,509

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 11 - Miscellaneous Revenues:

Miscellaneous revenues consisted of the following:

	2020	2019
Returned checks	\$ 6,930	\$ 6,157
Re-established service	71,215	112,140
Meter replacement	21,600	21,304
Service calls	9,630	6,815
New service	115,945	120,318
Miscellaneous fees	3,471	(533)
TOTAL MISCELLANEOUS REVENUE	\$ 228,791	\$ 266,201

Note 12 - Other Operating Expenses:

Other operating expenses consisted of the following:

	2020	2019
Legal and professional expenses	\$ 19,942	\$ 19,866
Insurance expense	1,031,927	951,015
TOTAL OTHER OPERATING EXPENSES	\$1,051,869	\$ 970,881

Note 13 - Gain (Loss) on Disposal of Capital Asset:

Gain (loss) on Disposal of Capital Asset as of June 30, 2020 consisted of:

Disposal of vehicles	\$ 13,044
Abandonment of Riverbank Filtration project	500
TOTAL GAIN ON DISPOSAL OF CAPITAL ASSET	\$ 13,544

Gain (loss) on Disposal of Capital Asset as of June 30, 2019 consisted of:

Disposal of water tanks	\$ (35,779)
Disposal of vehicles	(2,842)
Abandonment of Riverbank Filtration project	(547,618)
TOTAL LOSS ON DISPOSAL OF CAPITAL ASSET	\$ (586,239)

Note 14 - Contingencies:

An alleged fall related to a meter box occurred on August 2, 2017, and Paducah Water was not notified until July 20, 2018. The trial date was set for August 10-11, 2020. The plaintiff produced no evidence of Paducah Water's negligence as the trial approached. The original settlement demand was \$30,000 but on May 29, 2020, the opposing counsel suggested a much lower amount. Paducah Water agreed to settle for the nuisance sum of \$5,000 which was covered by insurance and litigation concluded on June 22, 2020. Paducah Water inherited the Lone Oak Water District in which they are not fully aware of where all lines run. A boring contract was made which resulted in multiple subcontracts to do the work. The lines were not properly marked and a water and sewer line that was close by were drilled into causing both water and sewage to run downhill into a residence in July 2017. The homeowner was reimbursed by his insurance, but his insurance decided to sue Paducah Water and all other entities involved. The defendants agreed to settle for \$39,000 with Paducah Water's share being \$8,500 which was paid by Travelers Insurance. Paducah Water did have to pay a \$5,000 deductible. Paducah Water decided to participate in a lawsuit targeting manufacturers of PFOA and PFOS chemicals. There are currently no EPA regulatory standards for these chemicals. The Environmental Protection Agency (EPA) has established health advisory levels of 70 parts per trillion and Paducah Water Works is at 4 parts per trillion. Paducah Water is not expected to incur any costs associated with this suit. Therefore, no liability is recorded.

(Continued)

PADUCAH WATER WORKS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 15 - Asset Retirement Obligations:

If a reasonable estimate of the fair value of an obligation to dismantle facilities, water tanks, or cap wells can be determined, a liability (an asset retirement obligation or ARO) under *ASC 410, Asset Retirement and Environmental Obligations* is recorded on the statement of net position, and the present value of the asset retirement cost is capitalized in the period in which the retirement obligation is incurred. In general, the amount of an ARO and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation assuming the normal operation of the asset using current prices adjusted by an inflation factor up to the estimated settlement date, which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for Paducah Water. These costs are amortized over the life of the asset. The only ARO Paducah Water had at June 30, 2019 was the Riverbank Filtration Project. There were none at June 30, 2020.

In the case of the water treatment facility, the fair value of retirement is not reasonably estimable. Most of the equipment in the facility is new. There are no known environmental hazards surrounding the eventual disposal of the facility nor are there any known legal liabilities required to be incurred with the disposal. For these reasons, no ARO has been recorded for the water treatment facility. This will be reevaluated in future years. With regard to water tanks, there are costs involved in the disposal of the tanks, but there are no legally enforceable liabilities related to the disposal. No liability has been recorded for disposal of water tanks. Paducah Water started a Riverbank Filtration project a few years ago where they drilled test wells to determine the feasibility of replacing their current surface level water intake. After receiving the results and incurring \$505,000 in expenses, it was decided to abandon the project before it was placed in service. An additional \$42,130 in expense was incurred to cap the two wells. The additional expense was an ARO at June 30, 2019 and was recorded on the statement of net position. According to *ASC 410*, when an asset is disposed of prior to being placed in service, it is expensed rather than being capitalized at the time the obligation is incurred. ARO's are usually long-term liabilities but, in the case of the Riverbank Well Project, the retirement was considered a current liability as it was already in the process of being retired by the end of June 30, 2019.

Liability on Riverbank Filtration Well Abandonment:	<u>2020</u>	<u>2019</u>
Beginning balance	\$ -	\$ -
Liabilities incurred	-	42,130
Liabilities settled	<u>-</u>	<u>-</u>
 ENDING BALANCE	 <u>\$ -</u>	 <u>\$42,130</u>

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH WATER WORKS
SCHEDULE OF EMPLOYERS PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS)
LAST SIX FISCAL YEARS*

	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.12081%	0.11843%	0.11740%	0.11753%	0.11311%	0.11693%
Employer's proportionate share of the net pension liability (asset)	\$ 8,496,902	\$ 7,212,565	\$ 6,871,607	\$ 5,786,673	\$ 4,863,028	\$ 3,794,000
Employer's covered payroll	\$ 3,047,437	\$ 2,935,190	\$ 2,858,333	\$ 2,739,805	\$ 2,634,729	\$ 2,698,560
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	278.82%	245.73%	240.41%	211.21%	184.57%	140.59%
Plan fiduciary net position as a percentage of the total pension liability (asset)	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%

* The amounts presented for each fiscal year were determined as of June 30. Until a full ten year trend is compiled, governments will present information only for those years for which information is available.

Notes to Schedule

The total pension liability and net pension liability as of June 30, 2020, is based on the June 30, 2018 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2019 using generally accepted actuarial principles. The financial reporting actuarial valuation used the following actuarial methods and assumptions.

Valuation date:	June 30, 2018
Experience study:	July 1, 2013 - June 30, 2018 for year 2020; July 1, 2008 - June 30, 2013 for prior years
Actuarial cost method:	Entry age normal
Amortization method:	Level percentage of payroll
Remaining amortization period:	24 years
Asset valuation method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized each year
Inflation:	2.30%
Payroll growth:	2.00%
Salary increase:	3.30% to 10.30%, varies by service
Investment rate of return:	6.25%, net of pension plan investment expense, including inflation
Mortality:	For active members: PUB-2010 General Mortality Table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries: System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members: 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.

Changes of benefit terms: None.

Changes of assumptions: Annual salary increases were updated as well as the annual rates of retirements, disability, withdrawal, and mortality based on the 2018 Experience Study. The percent of disabilities assumed to occur in the line of duty was updated from 0.00% to 2.00% for non-hazardous members.

NOTE: This schedule is based on the last measurement date of the net pension liability.

PADUCAH WATER WORKS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS)
LAST SEVEN FISCAL YEARS*

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 601,088	\$ 494,294	\$ 425,015	\$ 398,739	\$ 340,284	\$ 335,928	\$ 370,782
Contributions in relation to the contractually required contribution	601,088	494,294	425,015	398,739	340,960	337,696	370,782
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (676)	\$ (1,768)	\$ -
Employer's covered payroll	\$ 3,114,444	\$ 3,047,437	\$ 2,935,190	\$ 2,858,333	\$ 2,739,805	\$ 2,634,729	\$ 2,698,560
Contributions as a percentage of covered payroll	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%

* The amounts presented for each fiscal year were determined as of June 30. Until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

NOTE: This schedule is determined as of the employer's most recent fiscal year-end.

PADUCAH WATER WORKS
 SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE
 NET POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY
 COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS) INSURANCE FUND
 LAST THREE FISCAL YEARS*

	2020	2019	2018
Employer's proportion of the net OPEB liability (asset)	0.12078%	0.11842%	0.11740%
Employer's proportionate share of the net OPEB liability (asset)	\$ 2,031,499	\$ 2,102,559	\$ 2,360,081
Employer's covered-employee payroll	\$ 3,047,437	\$ 2,935,190	\$ 2,858,333
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	66.66%	71.63%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.40%

* The amounts presented for each fiscal year were determined as of June 30. Until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

Notes to Schedule

The total OPEB liability and net OPEB liability as of June 30, 2020, is based on the June 30, 2018 actuarial valuation as rolled-forward to the plan's fiscal year end of June 30, 2019 using generally accepted actuarial principles. The financial reporting actuarial valuation used the following actuarial methods and assumptions.

Valuation date:	June 30, 2018
Experience study:	July 1, 2013 - June 30, 2018 for year 2020; July 1, 2008 - June 30, 2013 for prior years
Actuarial cost method:	Entry age normal
Amortization method:	Level percentage of payroll
Remaining amortization period:	24 years
Asset valuation method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized each year
Inflation:	2.30%
Payroll growth:	2.00%
Salary increase:	3.30% to 10.30%, varies by service
Investment rate of return:	6.25%, net of OPEB plan investment expense, including inflation
Mortality:	For active members: PUB-2010 General Mortality Table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries: System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members: 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.
Healthcare trend rates:	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years (Pre-65). Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years (Post-65).
Changes of benefit terms:	None.
Changes of assumptions:	The single discount rate for non-hazardous changed from 5.85% to 5.68%. The municipal bond rate increased from 3.62% to 3.13%. Annual salary increases were updated as well as the annual rates of retirements, disability, withdrawal, and mortality based on the 2018 Experience Study. The percent of disabilities assumed to occur in the line of duty was updated from 0.00% to 2.00% for non-hazardous members.

NOTE: This schedule is based on the last measurement date of the net OPEB liability.

PADUCAH WATER WORKS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
NET POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS) INSURANCE FUND
LAST FOUR FISCAL YEARS*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 148,248	\$ 160,295	\$ 137,954	\$ 135,199
Contributions in relation to the contractually required contribution	<u>148,248</u>	<u>160,295</u>	<u>137,954</u>	<u>135,199</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 3,114,444	\$ 3,047,437	\$ 2,935,190	\$ 2,858,333
Contributions as a percentage of covered-employee payroll	4.76%	5.26%	4.70%	4.73%

* The amounts presented for each fiscal year were determined as of June 30. Until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

NOTE: This schedule is determined as of the employer's most recent fiscal year-end. Contractually required contributions do not include the expected implicit subsidy included in the calculation of the net OPEB liability.



WILLIAMS WILLIAMS & LENTZ

CERTIFIED PUBLIC ACCOUNTANTS

J. David Bailey, III
Roger G. Harris
Michael F. Karnes
Mark A. Thomas
Ashley C. Grooms
Kelly D. Scruggs
Benjamin D. Teer

**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***

The Board of Directors
Paducah Water Works
Paducah, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Paducah Water Works as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Paducah Water Works' basic financial statements, and have issued our report thereon dated September 28, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paducah Water Works' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Williams, Williams & Lentz LLP

Paducah, Kentucky
September 28, 2020

