

CALDWELL COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

CALDWELL COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report..... | 1 - 3 |
| Management’s Discussion and Analysis (Unaudited)..... | 4 - 8 |
| Basic Financial Statements | |
| Statement of Net Position..... | 9 |
| Statement of Revenues, Expenses and Changes in Net Position..... | 10 |
| Statement of Cash Flows..... | 11 |
| Notes to the Financial Statements..... | 12 - 32 |
| Required Supplementary Information | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund..... | 33 |
| County Employees Retirement System: | |
| Schedule of the Proportionate Share of the Net Pension Liability..... | 34 |
| Schedule of Pension Contributions | 35 |
| Schedule of Changes in Benefits and Assumptions Pension | 36 - 37 |
| Schedule of the Proportionate Share of the Net OPEB Liability..... | 38 |
| Schedule of OPEB Contributions | 39 |
| Schedule of Changes in Benefits and Assumptions OPEB | 40 - 41 |
| Other Information | |
| Detail Schedule of Operating Expenses..... | 42 |
| Compliance and Internal Control Section | |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 43 - 44 |
| Schedule of Findings and Responses..... | 45 |
| Schedule of Prior Year Findings and Responses..... | 46 |

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Caldwell County Water District
Princeton, Kentucky

Opinions

We have audited the accompanying financial statements of the business-type activities of the Caldwell County Water District as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective position of the business-type activities of the Caldwell County Water District as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Caldwell County Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months Bayonne the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Caldwell County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Caldwell County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information is comprised of the detailed schedule of operating expenses but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 25, 2022, on our consideration of the Caldwell County Water District's 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 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 District'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 District's internal control over financial reporting and compliance.

Handwritten signature of Jessica K. Donil CPA FSC. The signature is written in cursive and includes the text "Jessica K. Donil CPA FSC" to the right of the signature.

Eddyville, Kentucky
July 25, 2022

**CALDWELL COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021
(UNAUDITED)**

The Caldwell County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2021. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources of the District exceed its total liabilities and deferred inflows of resources at December 31, 2021, by \$6,346,901 (Net Position). Of this amount, \$255,491 represents the unrestricted net position.
- The District's net position increased by \$90,010.
- The District's 2021 operating revenues of \$1,385,888 increased \$42,906, and operating expenses for 2021 of \$1,223,240 increased \$92,889. Non-operating income for 2021 consisted of interest income of \$1,201. Capital contributions consisted of tap on fees totaling \$31,083.
- The District's unrestricted cash available for operating expenses was \$812,289 at December 31, 2021.
- The District's investment in capital assets was \$7,853,354 net of depreciation at December 31, 2021.

OVERVIEW OF THE FINANCIAL STATEMENTS

Caldwell County Water District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net position. The statement of net position presents the financial position of the District. It presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 9 of this report.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent 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 related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 10 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 12-32 of this report.

Supplementary Information. In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 33-41.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$6,346,901 as of December 31, 2021.

The District's overall financial position and operations for the past two years are summarized as follows:

CALDWELL COUNTY WATER DISTRICT'S NET POSITION

| | 2021 | 2020 |
|---------------------------------------|--------------|--------------|
| Assets | | |
| Current and other assets | \$ 1,861,432 | \$ 1,777,773 |
| Capital assets | 7,853,354 | 8,045,716 |
| Total Assets | 9,714,786 | 9,823,489 |
| Deferred Outflows of Resources | 279,045 | 137,007 |
| Liabilities | | |
| Other liabilities | 156,691 | 170,010 |
| Current portion of long-term debt | 75,000 | 101,000 |
| Long-term liabilities | 3,034,601 | 1,245,152 |
| Total Liabilities | 3,266,292 | 1,516,162 |
| Deferred Inflows of Resources | 380,638 | 347,020 |
| Net Position | | |
| Net investment in capital assets | 5,319,133 | 5,371,167 |
| Restricted | 772,277 | 683,665 |
| Unrestricted | 255,491 | 202,059 |
| Total Net Position | \$ 6,346,901 | \$ 6,256,891 |

The largest portion of the District's net position (84%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies, mapping, and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (12%) represents resources that are subject to external restriction (debt service) on how they may be used. The unrestricted net position is \$255,491.

Analysis of the District's Operations – Overall the District had a increase in net position of \$90,010.

The following table provides a summary of the District's operations for the year ended December 31, 2021 and 2020.

**CALDWELL COUNTY WATER DISTRICT
CHANGES IN NET POSITION**

| | 2021 | 2020 |
|--|--------------|--------------|
| Revenues | | |
| Operating revenues | \$ 1,385,888 | \$ 1,342,982 |
| Investment income | 1,201 | 1,188 |
| Grant income | - | 83,286 |
| Gain (loss) from disposal of assets | - | 4,676 |
| Capital contributions | 31,083 | 14,780 |
| Total Revenues | 1,418,172 | 1,446,912 |
| Expenses | | |
| Source of supply purchases | 342,648 | 335,148 |
| Administrative and general expenses | 335,153 | 303,255 |
| Depreciation and amortization | 236,158 | 234,537 |
| Transmission and distribution expenses | 262,860 | 220,324 |
| Interest on debt and other | 104,922 | 102,501 |
| Payroll and other taxes | 23,250 | 16,347 |
| Customer accounts expenses | 17,437 | 12,909 |
| Water treatment | 5,812 | 7,951 |
| Bad debts (recovery) | (78) | (120) |
| Total Expenses | 1,328,162 | 1,232,852 |
| Change in Net Position | 90,010 | 214,060 |
| Net Position - January 1 | 6,256,891 | 6,042,831 |
| Net Position - December 31 | \$ 6,346,901 | \$ 6,256,891 |

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

Overall, the District's financial position is consistent with the previous year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original and final budget passed by the board anticipated a decrease in the fund balance of 29,777. The actual operating revenue received exceeded the final budgeted revenue by \$7,402. Final budgeted expenditures exceeded actual expenditures by \$127,003. The budgetary figures and actual amounts are reported in the supplementary information on page 33.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for business-type activities as of December 31, 2021, amounts to \$7,853,354 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure.

| | 2021 | 2020 |
|---|---------------------|---------------------|
| Business-type activities | | |
| Capital assets, not being depreciated | | |
| Land | \$ 9,000 | \$ 9,000 |
| Total capital assets, not being depreciated | 9,000 | 9,000 |
| Capital assets, being depreciated | | |
| Transmission and distribution mains | 6,841,139 | 7,010,980 |
| Meters and installation | 312,061 | 285,612 |
| Office furniture and equipment | 12,227 | 7,373 |
| Communication equipment | - | 137 |
| Vehicles and equipment | 109,415 | 133,421 |
| Hydrants | 36,871 | 38,256 |
| Structures and improvements | 175,405 | 182,386 |
| Distribution and reservoirs | 200,176 | 208,187 |
| Water treatment equipment | 81,042 | 84,566 |
| Shop and garage equipment | 14,236 | 15,348 |
| Pumping equipment | 61,782 | 70,450 |
| Total capital assets, being depreciated | 7,844,354 | 8,036,716 |
| Business-type activities capital assets, net | \$ 7,853,354 | \$ 8,045,716 |

During the year ended December 31, 2021, the District acquired assets totaling \$43,796.

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-term and other debt

At the end of the current year, the Caldwell County Water District had total debt of \$2,534,221. Long-term debt at December 31, 2021, was as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------|---------------------|---------------------|
| Waterworks revenue series 1999 | \$ 518,000 | \$ 557,000 |
| Waterworks revenue series 2004 | 458,000 | 482,000 |
| KACO Lease | 1,455,000 | 1,525,000 |
| KACO Lease Premium | <u>103,221</u> | <u>110,550</u> |
| Total | <u>\$ 2,534,221</u> | <u>\$ 2,674,550</u> |

Interest expense of \$104,922 was incurred during the year ended December 31, 2021.

Additional information on the District's long-term debt can be found in Note 6 of this report.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Caldwell County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Jimmy Littlefield, CEO, Caldwell County Water District, 118 West Market Street, Princeton, KY 42445.

Caldwell County Water District
Statement of Net Position
December 31, 2021

Assets

Current Assets

| | |
|--|------------------|
| Cash equivalents | \$ 812,289 |
| Customer accounts receivable (less allowance for uncollectible accounts of \$20,852) | 120,970 |
| Unbilled revenue | 74,683 |
| Inventory | 69,057 |
| Prepayments | 12,156 |
| Restricted assets | |
| Cash equivalents | 73,016 |
| Investments | 699,261 |
| Total Current Assets | <u>1,861,432</u> |

Noncurrent Assets

| | |
|-------------------------------------|------------------|
| Capital assets, net of depreciation | <u>7,853,354</u> |
| Total Noncurrent Assets | <u>7,853,354</u> |
| Total Assets | <u>9,714,786</u> |

Deferred Outflows of Resources

| | |
|---|------------------|
| Related pensions | 160,950 |
| Related other postemployment benefits | <u>118,095</u> |
| Total Deferred Outflows of Resources | <u>279,045</u> |
| Total Assets and Deferred Outflows of Resources | <u>9,993,831</u> |

Liabilities

Current Liabilities

| | |
|--------------------------------|----------------|
| Trade accounts payable | 49,974 |
| Accrued liabilities | 28,537 |
| Accrued interest on debt | 5,164 |
| Customers' deposits | 73,016 |
| Long-term debt due in one year | <u>75,000</u> |
| Total Current Liabilities | <u>231,691</u> |

Noncurrent Liabilities

| | |
|---|------------------|
| Long-term debt due after one year | 2,356,000 |
| Net pension liability | 521,922 |
| Net other postemployment benefits liability | <u>156,679</u> |
| Total Noncurrent Liabilities | <u>3,034,601</u> |
| Total Liabilities | <u>3,266,292</u> |

Deferred Inflows of Resources

| | |
|---|------------------|
| Related to pensions | 146,027 |
| Related to other post-employment benefits | 131,390 |
| Related to debt | <u>103,221</u> |
| Total Deferred Inflows of Resources | <u>380,638</u> |
| Total Liabilities Deferred Inflows of Resources | <u>3,646,930</u> |

Net Position

| | |
|----------------------------------|---------------------|
| Net investment in capital assets | 5,319,133 |
| Restricted for | |
| Debt service | 699,261 |
| Customer deposits | 73,016 |
| Unrestricted | <u>255,491</u> |
| Total Net Position | <u>\$ 6,346,901</u> |

See accompanying notes and accountant's report.

Caldwell County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2021

| | |
|---|----------------------------|
| <u>Operating Revenue</u> | |
| Water revenues | \$ 1,359,484 |
| Other | <u>26,404</u> |
| Total Operating Revenues | <u>1,385,888</u> |
| | |
| <u>Operating Expenses</u> | |
| Source of supply purchases | 342,648 |
| Administrative and general expenses | 335,153 |
| Depreciation | 236,158 |
| Transmission and distribution expenses | 262,860 |
| Payroll and other taxes | 23,250 |
| Customer accounts expenses | 17,437 |
| Water treatment | 5,812 |
| Bad debts (recovery) | <u>(78)</u> |
| Total Operating Expenses | <u>1,223,240</u> |
| | |
| <u>Operating Income (Loss)</u> | <u>162,648</u> |
| | |
| <u>Nonoperating Revenues (Expenses)</u> | |
| Investment income | 1,201 |
| Interest on debt | <u>(104,922)</u> |
| Total Nonoperating Revenue (Expenses) | <u>(103,721)</u> |
| | |
| <u>Net Income Before Capital Contributions</u> | 58,927 |
| | |
| <u>Capital Contributions</u> | <u>31,083</u> |
| | |
| <u>Change in Net Position</u> | 90,010 |
| | |
| <u>Net Position-Beginning of Year</u> | <u>6,256,891</u> |
| | |
| <u>Net Position-End of Year</u> | <u>\$ <u>6,346,901</u></u> |

See accompanying notes and accountant's report.

Caldwell County Water District
Statement of Cash Flows
For the Year Ended December 31, 2021

| | |
|--|--------------------------|
| <u>Cash Flows From Operating Activities</u> | |
| Cash received from customers | \$ 1,398,930 |
| Cash payments to suppliers for goods and services | (678,950) |
| Cash payments to employees for services | (424,271) |
| Net Cash Provided By Operating Activities | <u>295,709</u> |
| <u>Cash Flows From Capital and Related Financing Activities</u> | |
| Principal paid on capital debt | (133,000) |
| Contributed capital | 31,083 |
| Acquisition of property, plant, and equipment | (8,296) |
| Interest paid on debt | (118,751) |
| Net Cash Used By Capital and Related Financing Activities | <u>(228,964)</u> |
| <u>Cash Flows From Investing Activities</u> | |
| Income received on investments | 571 |
| Sale of investment securities | 158,651 |
| Purchase of investment securities | (241,074) |
| Net Cash Used By Investing Activities | <u>(81,852)</u> |
| <u>Net Increase (Decrease) in Cash Equivalents</u> | (15,107) |
| <u>Cash Equivalents-Beginning of Year</u> | <u>900,412</u> |
| <u>Cash Equivalents-End of Year</u> | <u><u>\$ 885,305</u></u> |
| <u>Reconciliation of Operating Income to Net Cash Provided</u> | |
| <u>By Operating Activities</u> | |
| Operating Income (Loss) | \$ 162,648 |
| Adjustments to reconcile operating income to net cash provided by operating activities | |
| Depreciation | 236,158 |
| Change in assets and liabilities | |
| Accounts receivable | 6,495 |
| Inventory | (29,815) |
| Prepayments | 7,607 |
| Deferred outflows of resources | (142,038) |
| Accounts payable | (31,946) |
| Customer deposits | 6,547 |
| Accrued liabilities | (9,590) |
| Deferred pension and OPEB liabilities | 56,025 |
| Deferred inflows of resources | 33,618 |
| Net Cash Provided By Operating Activities | <u>\$ 295,709</u> |
| <u>Reconciliation of Total Cash</u> | |
| Current Assets - Cash | \$ 812,289 |
| Restricted Assets - Cash | 73,016 |
| Total Cash | <u><u>\$ 885,305</u></u> |

Non-cash Investing, Capital and Related Financing Activities - None

See accompanying notes and accountant's report.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Caldwell County Water District, (the District), is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Princeton, Kentucky and primarily serves rural Caldwell County.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State, and Local Governmental Units and by the Financial Accounting Standards board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below:

Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority: the authority to set rates, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, net position, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Position.

Measurement Focus/Basis of Accounting

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 accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Reclassifications

Prior period financial statement amounts have been reclassified to conform to current period presentation. Operating income and net earnings for the prior period were not impacted by the reclassifications.

Budget

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2021, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments

Cash and cash equivalents are deposited with First Southern National Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2021 are recorded as prepaid items.

Post Employment Benefits

Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

Capital Assets

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

| | |
|---|----------------|
| Transmission and Distribution Equipment | 20 to 65 years |
| Furniture, Machinery, and Equipment | 5 to 10 years |
| Leasehold Improvements | 15 to 25 years |
| Vehicles | 3 to 5 years |

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on an analysis of receivables outstanding more than 120 days. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the December 31, 2021 accounts receivable.

Unearned Revenue

The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

Inventory

Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

Restricted Assets

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. See Note 4 for information describing restricted assets.

Estimates

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

Risk Management

The District 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 disaster. During the year ended December 31, 2021, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Pensions and Other Postemployment Benefits

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

Net Position

In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category.

Deferred Inflows of Resources: 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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

A deferred inflow from pensions and other postemployment benefits results from net differences between expected and actual earnings on pension plan investments. This amount is deferred and will be recognized as a reduction of pension expense over the next four years.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Recent Accounting Pronouncements

As of December 31, 2021, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 95

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, was issued May 2020. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The following statement information has been updated to reflect the new effective dates.

GASB Statement No. 87

GASB Statement No. 87, *Leases*, was issued in June 2017. The provisions of this Statement are effective for periods beginning after June 15, 2021. This Statement will increase the usefulness of governments' financial statements by required reporting of certain lease liabilities that currently are not required. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single method. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 91

GASB Statement No. 91, *Conduit Debt Obligations*, was issued May 2019. The requirements of this Statement are effective for periods beginning after December 15, 2021. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards of accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The District's management has not yet determined the effect this Statement will have on the financial statements.

GASB Statement No. 92

GASB Statement No. 92, *Omnibus 2020*, was issued in January 2020. The requirements of this Statement are effective for periods beginning after June 15, 2021. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 93

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued March 2020. The requirements of this Statement are effective for periods beginning after June 15, 2021. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR (interbank offered rate). The District's management has not yet determined the effect this statement will have on the financial statements.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Subsequent Events

The District has evaluated subsequent events through July 25, 2022, the date which the financial statements were available to be issued.

2. LEGAL COMPLIANCE

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2021.

Budgets

The District passed a budget with a deficit of \$29,777. There was sufficient carryover from the prior year to compensate for the deficit.

3. DEPOSITS AND INVESTMENTS

1. Net Position

The captions on the statement of net position for cash, investments, and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

| | <u>Cash on Hand</u> | <u>Deposits</u> | <u>Investments</u> | <u>Total</u> |
|-------------------|---------------------|---------------------|--------------------|---------------------|
| Cash equivalents | \$ 550 | \$ 811,739 | \$ - | \$ 812,289 |
| Restricted assets | | | | |
| Cash equivalents | - | 73,016 | - | 73,016 |
| Investments | <u>-</u> | <u>699,261</u> | <u>-</u> | <u>699,261</u> |
| Total | <u>\$ 550</u> | <u>\$ 1,584,016</u> | <u>\$ -</u> | <u>\$ 1,584,566</u> |

2. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions were \$1,584,566, and the bank balances were \$1,589,474. Of the bank balances, \$877,000 is held in an Insured Cash Sweep account. \$699,261 are held in Certificates of Deposit. The District's remaining deposits of \$13,213 are covered by federal depository insurance corporation (FDIC).

3. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer. At December 31, 2021, the District had 100% of its investments in fully collateralized certificates of deposit.

Identification

At December 31, 2021, the District had the following investments:

| Investment | Maturities | Fair Value |
|------------------------------|------------|--------------------------|
| Certificates of Deposit: | | |
| First Southern National Bank | 04/05/2022 | \$ 418,059 |
| First Southern National Bank | 04/05/2022 | <u>281,202</u> |
| Total Investments | | <u><u>\$ 699,261</u></u> |

4. RESTRICTED NET POSITION

Restricted Net Assets

| | Debt Retirement | | Customer Deposits | Total |
|-------------------------|--------------------------|--------------------------|-------------------------|--------------------------|
| | Depreciation Fund | Sinking Fund | | |
| | Cash equivalents | \$ - | | |
| Investments | | | | |
| Certificates of deposit | <u>418,059</u> | <u>281,202</u> | - | <u>699,261</u> |
| Totals | <u><u>\$ 418,059</u></u> | <u><u>\$ 281,202</u></u> | <u><u>\$ 73,016</u></u> | <u><u>\$ 772,277</u></u> |

Restricted Cash for Debt Retirement

The Caldwell County Water District Bonds (All Series) require the District establish a Sinking Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve month period on all of the outstanding bonds. The District has been making the required monthly deposits of \$18,028.50 to service the outstanding debt. At December 31, 2021, the balance of the Sinking Reserve was \$281,202.

The Bonds also required that a Depreciation Account be funded monthly. The 1999 Series Bonds require that amounts be deposited over the life of the Bonds. The remaining series require the Depreciation Fund be funded until the balance reaches certain amounts with the maximum amount being \$79,800. The District is funding the Depreciation Fund monthly as required, depositing \$2,061 per month. At December 31, 2021, the balance of the Depreciation Fund was \$418,059.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

5. CAPITAL ASSETS

A summary of proprietary fund property, plant, and equipment at December 31, 2021 for business-type activities follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|---------------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 9,000 | \$ - | \$ - | \$ 9,000 |
| Total capital assets, not being depreciated | <u>9,000</u> | <u>-</u> | <u>-</u> | <u>9,000</u> |
| Capital assets, being depreciated: | | | | |
| Transmission and distribution mains | 12,646,732 | - | - | 12,646,732 |
| Meters and installation | 454,912 | 35,494 | - | 490,406 |
| Office furniture and equipment | 64,195 | 6,587 | - | 70,782 |
| Communication equipment | 16,380 | - | - | 16,380 |
| Vehicles and equipment | 284,451 | - | - | 284,451 |
| Hydrants | 83,083 | - | - | 83,083 |
| Power operated equipment | 131,918 | - | - | 131,918 |
| Structures and improvements | 335,819 | 1,715 | - | 337,534 |
| Distributions and reservoirs | 482,758 | - | - | 482,758 |
| Water treatment equipment | 123,328 | - | - | 123,328 |
| Shop and garage equipment | 34,970 | - | - | 34,970 |
| Pumping equipment | <u>177,177</u> | <u>-</u> | <u>-</u> | <u>177,177</u> |
| Total capital assets, being depreciated | <u>14,835,723</u> | <u>43,796</u> | <u>-</u> | <u>14,879,519</u> |
| Less accumulated depreciation for: | | | | |
| Transmission and distribution mains | (5,635,752) | (169,843) | - | (5,805,595) |
| Meters and installation | (169,300) | (9,045) | - | (178,345) |
| Office furniture and equipment | (56,822) | (1,731) | - | (58,553) |
| Communication equipment | (16,243) | (137) | - | (16,380) |
| Vehicles and equipment | (151,030) | (24,006) | - | (175,036) |
| Hydrants | (44,827) | (1,385) | - | (46,212) |
| Power operated equipment | (131,918) | - | - | (131,918) |
| Structures and improvements | (153,433) | (8,696) | - | (162,129) |
| Distributions and reservoirs | (274,571) | (8,011) | - | (282,582) |
| Water treatment equipment | (38,762) | (3,524) | - | (42,286) |
| Shop and garage equipment | (19,622) | (1,112) | - | (20,734) |
| Pumping equipment | <u>(106,727)</u> | <u>(8,668)</u> | <u>-</u> | <u>(115,395)</u> |
| Total accumulated depreciation | <u>(6,799,007)</u> | <u>(236,158)</u> | <u>-</u> | <u>(7,035,165)</u> |
| Total capital assets, being depreciated, net | <u>8,036,716</u> | <u>(192,362)</u> | <u>-</u> | <u>7,844,354</u> |
| Business-type activities capital assets, net | <u>\$ 8,045,716</u> | <u>\$ (192,362)</u> | <u>\$ -</u> | <u>\$ 7,853,354</u> |

Depreciation charged to income was \$236,158.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

6. DEBT OBLIGATIONS

Revenue Bonds Payable

| <u>Description</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance 12/31/2021</u> | <u>Due in One Year</u> |
|-----------------------|----------------------|----------------------|---------------------------|------------------------|
| Revenue Bonds Payable | | | | |
| USDA: Series 1999 | 3.25% | 2039 | \$ 518,000 | \$ - |
| USDA: Series 2004 | 4.125% | 2044 | 458,000 | - |
| KACO: Series 2019E | 2.738% | 2036 | <u>1,455,000</u> | <u>75,000</u> |
| Total | | | 2,431,000 | <u>\$ 75,000</u> |
| Less current portion | | | <u>(75,000)</u> | |
| Long-term portion | | | <u>\$ 2,356,000</u> | |

Principal and interest requirements of the revenue bonds payable as of December 31, 2021 are:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest & Fees</u> | <u>Total</u> |
|---------------------------------|---------------------|----------------------------|---------------------|
| 2022 | \$ 75,000 | \$ 61,965 | \$ 136,965 |
| 2023 | 114,000 | 106,165 | 220,165 |
| 2024 | 120,000 | 100,440 | 220,440 |
| 2025 | 122,000 | 94,390 | 216,390 |
| 2026 | 128,000 | 88,265 | 216,265 |
| 2027-2031 | 749,000 | 338,776 | 1,087,776 |
| 2032-2036 | 783,500 | 166,074 | 949,574 |
| 2037-2041 | 248,500 | 48,538 | 297,038 |
| 2042-2044 | <u>91,000</u> | <u>6,975</u> | <u>97,975</u> |
| Total | <u>\$ 2,431,000</u> | <u>\$ 1,011,588</u> | <u>\$ 3,442,588</u> |

Information on individual debt instruments follows:

Series 1999

During 1999, Caldwell County Water District adopted a resolution to issue \$800,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1999 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$370 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 3.250% is paid each January 1 and July 1.

Series 2004

During 2005, Caldwell County Water District adopted a resolution to issue \$600,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2004 dated September 27, 2005 for the purpose of line construction in Caldwell County.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Bond covenants require that a depreciation account be funded in the amount of \$280 per month until there is accumulated in the Depreciation Fund the sum of at least \$33,600. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, must be audited annually, and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.125% is paid each January 1 and July 1.

KACO Lease Payable

On December 5, 2019, the District entered into a lease agreement with Kentucky Association of Counties Finance Corporation to issue Revenue Bonds 2019 First Series E. The proceeds were used to refinance the 1993, 1996, 2000, and 2002 USDA Refunding Bonds. The original bonds were issued for the purpose of new line construction. The new bonds were issued for \$1,690,000, carry an interest rate range of 3.00% - 5.00%, and mature February 1, 2036. The bonds were issued with a lease premium of \$118,490, which will be recognized over the life of the bond.

Changes in Business-Type Activities Debt

A summary of changes in the business-type activities debt for the year ended December 31, 2021 follows:

| | <u>Balance</u> <u>12/31/2020</u> | <u>Proceeds</u> | <u>Principal</u> <u>Payments</u> | <u>Balance</u> <u>12/31/2021</u> | <u>Due Within</u> <u>One Year</u> |
|---|-------------------------------------|-----------------|-------------------------------------|-------------------------------------|--------------------------------------|
| <u>Business-Type Activities:</u> | | | | | |
| Revenue Bonds Payable | \$ 1,039,000 | \$ - | \$ 63,000 | \$ 976,000 | \$ - |
| Lease Payable | 1,525,000 | - | 70,000 | 1,455,000 | 75,000 |
| Lease Premium | <u>110,550</u> | <u>-</u> | <u>7,329</u> | <u>103,221</u> | <u>-</u> |
| Total Business-Type Activities | <u>\$ 2,674,550</u> | <u>\$ -</u> | <u>\$ 140,329</u> | <u>\$ 2,534,221</u> | <u>\$ 75,000</u> |

Total interest paid for the year ended December 31, 2021 was \$104,922.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

7. **EMPLOYEES' RETIREMENT PLAN**

County Employees' Retirement System

Plan description. The District is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA). The CERS pension plan has two categories: Hazardous for sworn police and fire employees and Nonhazardous for general employees. The KPPA is the successor to Kentucky Retirement Systems and was created by state statute under Kentucky Revised Statute ("KRS") Sections 61.645, as amended by House Bill 484 and House Bill 9 of the 2020 and 2021 regular sessions, respectively, of the Kentucky General Assembly. These amendments transferred governance of the CERS to a separate nine member board of trustees. The CERS Board of Trustees is responsible for the proper operation and administration of the CERS. The KPPA issues a publicly available annual comprehensive financial containing CERS information that can be obtained from <https://kyret.ky.gov>.

Benefits provided. CERS provides retirement, health insurance, and death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years service. For retirement purposes, nonhazardous employees are grouped into three tiers, based on hire date.

Nonhazardous members

| | | |
|--------|----------------------|--|
| Tier 1 | Participation date | Prior to September 1, 2008 |
| | Unreduced retirement | 27 years of service or 65 years old Minimum 5 years of service and 55 years old |
| | Reduced retirement | Minimum 25 years of service and any age |
| Tier 2 | Participation date | September 1, 2008 and December 31, 2013 |
| | Unreduced retirement | Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87 |
| | Reduced retirement | Minimum 10 years of service and 60 years old |
| Tier 3 | Participation date | After December 31, 2013 |
| | Unreduced retirement | Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87 |
| | Reduced retirement | Not available |

Plan Funding. State statute requires active members to contribute a percentage of creditable compensation based on the tier:

| | <u>Required Contributions</u> |
|--------|-------------------------------|
| Tier 1 | 5% |
| Tier 2 | 5% plus 1% for insurance |
| Tier 3 | 5% plus 1% for insurance |

Employers are required by state statute (KRS 78.545(33)) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the Board of Trustees annually based upon actuarial valuations. For the year ended December 31, 2021, the employer contribution rate was 19.30% for the period January 1, 2021 to June 30, 2021; and 21.17% for the period July 1, 2021 to December 31, 2021, respectively of members' nonhazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contribution requirements and the amounts contributed to CERS for the year ending December 31, 2021, were \$67,049. Of this amount,

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

\$53,111 is considered contributed to the pension requirement and \$13,938 is considered contributed to the health insurance requirement.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At December 31, 2021, the District reported a liability of \$521,922 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. House Bill 8 passed during the 2021 legislative session changed how employer contributions are allocated and collected from the participating employers in the KERS Nonhazardous plan. Therefore, the calculation of the proportionate share of the Collective Pension Amounts for employers that participate in the KERS Nonhazardous pension plan has been updated since June 30, 2020. The proportionate share of the Collective Pension Amounts for employers that participate in KERS Nonhazardous plan is based upon their allocation of the amortization cost, as specified under the revised statutes. It is further based upon their allocation of the normal cost portion of the required contribution, as allocated by actual salary for fiscal year ending June 30, 2021. The final proportionate share calculation, which represents an employer's share of the long-term contribution effort assumes the amortization cost is approximately 90% of the aggregate required contribution for the fund. Employer contributions are accrued when earned and the employer has made a formal commitment to provide the contributions. At June 30, 2021, the District's proportion was .008186%.

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expense of \$19,627 for the year ended December 31, 2021. At December 31, 2021, the District 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 expected and actual experience | \$ 5,993 | \$ 5,066 |
| Net differences between projected and actual investment earnings | 20,247 | 89,811 |
| Change of assumption | 7,005 | - |
| Changes in proportion and differences between employer contributions and share of contributions | 95,936 | 51,150 |
| Contributions subsequent to the measurement date | <u>31,769</u> | <u>-</u> |
| Totals | <u>\$ 160,950</u> | <u>\$ 146,027</u> |

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Deferred Outflows of Resources. The \$31,769 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. 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>Years Ending</u> | <u>Amortization/ (Accretion)</u> |
|---------------------|--------------------------------------|
| December 31, 2022 | \$ (6,822) |
| December 31, 2023 | 24,161 |
| December 31, 2024 | (12,401) |
| December 31, 2025 | <u>(21,784)</u> |
| Total | \$ <u><u>(16,846)</u></u> |

Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

The actuarial assumptions used in the June 30, 2021 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018.

There have been no actuarial assumption or method changes since June 30, 2020. Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total pension liability as of June 30, 2021, is determined using these updated benefit provisions.

House Bill 8 passed during the 2021 legislative session changed how employer contributions are allocated and collected from the participating employer in the KERS Nonhazardous plan. This change does not impact the calculation of the total pension liability but does impact the allocation of required contributions amongst the participating employers. As a result of this legislation, there are several employers that will experience a relatively large change in proportionate share of the Collective Pension Amounts in the KERS Nonhazardous pension plan from 2020 to 2021.

House Bill 1 passed during the 2019 legislative session and allowed certain agencies in the KERS Nonhazardous plan to elect to cease participating in the fund as of June 30, 2020, under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session delayed the effective date of cessation for these provisions to June 30, 2021. Only one employer elected to cease participation under these provisions and freeze benefit accruals for their employees. As such, there is no material impact on the total pension liability due to this legislation. There were no other material plan provision changes.

Senate Bill 249 passed during the 2020 Legislative Session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20 year amortization bases. This change does not impact the calculation of total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

The actuarial assumptions are:

| | |
|---------------------------|------------------------------------|
| Inflation | 2.30% |
| Payroll Growth Rate | 2.00% for CERS Nonhazardous |
| Salary increases | 3.30% to 10.30%, varies by service |
| Investment rate of return | 6.25% |

The mortality table used for active members was 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 non-disabled 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 scale 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 long-term expected rate of return on plan assets is reviewed as part of the regular experience studies prepared every five years. The long-term(10-year) expected rates of return were determined by using a building block method in which best estimated ranges of expected future real rates of returns are developed for each asset class. The ranges were 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:

| Asset Class | Target Allocation | Long-Term Nominal Rate of Return |
|--------------------------------|-------------------|----------------------------------|
| Growth | 68.50% | |
| US Equity | 21.75% | 5.70% |
| Non US Equity | 21.75% | 6.35% |
| Private Equity | 10.00% | 9.70% |
| Specialty Credit/High Yield | 15.00% | 2.80% |
| Liquidity | 11.50% | |
| Core Bonds | 10.00% | 0.00% |
| Cash | 1.50% | (0.60)% |
| Diversifying Strategies | 20.00% | |
| Real Estate | 10.00% | 5.40% |
| Opportunistic | 0.00% | N/A |
| Real Return | 10.00% | 4.55% |
| Total | 100.00% | |
| Expected real return | | 5.00% |
| Long-term inflation assumption | | 2.30% |

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Discount Rate. The single discount rate used to measure the total pension liability for the fiscal plan year ending June 30, 2021, was 6.25% for nonhazardous and hazardous employees. The projection of cash flows used to determine the single discount rate for each plan must include an assumption regarding actual employer contributions made each future year. Except where noted below, future contributions are projected assuming that each participating employer in each pension plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employee contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028. The discount rate determination does not use a municipal bond rate.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District's 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% Decrease 5.25% | Current Discount Rate 6.25% | 1% Increase 7.25% |
|---|-------------------------|-----------------------------------|-------------------------|
| The District's proportionate share of the net pension liability | \$ 669,389 | \$ 521,922 | \$ 399,896 |

Payables to the pension plan. At December 31, 2021, the financial statements include \$6,509 in contractually required employee and employer pension contributions primarily for the month ended December 31, 2021. The obligation was paid within prescribed time limits.

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued annual comprehensive financial report issued by the Kentucky Public Pensions Authority and can be found at <https://kyret.ky.gov>.

Other Postemployment Benefit Plan (OPEB)

CERS Medical Insurance Plan

Plan description. The District is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS), a cost-sharing multiple-employer defined benefit postemployment benefit plan (OPEB) administered by the Kentucky Public Pensions Authority (KPPA). The KPPA is the successor to Kentucky Retirement Systems and was created by state statute under Kentucky Revised Statute ("KRS") Sections 61.645, as amended by House Bill 484 and House Bill 9 of the 2020 and 2021 regular sessions, respectively, of the Kentucky General Assembly. These amendments transferred governance of the CERS to a separate nine member board of trustees. The CERS Board of Trustees is responsible for the proper operation and administration of the CERS. The KPPA issues a publicly available annual comprehensive financial containing CERS information that can be obtained from <https://kyret.ky.gov>.

Benefits provided. The CERS Nonhazardous Insurance Fund is a cost-sharing multiple-employer defined benefit OPEB plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Contributions. Per Kentucky Revised Statutes 78.545 (33), contribution requirements are established and may be amended by the KRS Board. The District's required contribution rate for non-hazardous employees was 4.76% for the period January 1, 2021 to June 30, 2021; and 5.78% for the period July 1, 2021 to December 31, 2021.

Employees hired after September 1, 2008, are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits and the 1% contribution to 401(h) account is non-refundable.

OPEB Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources. At December 31, 2021, the District reported a net OPEB liability of \$156,679 for its proportionate share of the CERS net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021. At June 30, 2021, the District's proportion was .008184% for nonhazardous classified employees.

For the year ended December 31, 2021, the District recognized OPEB expense of \$2,357. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Net difference between projected & actual earnings on pension plan investments | \$ 24,638 | \$ 46,779 |
| Changes of assumptions | 41,538 | 146 |
| Net difference between projected and actual earnings on plan investments | 7,894 | 32,404 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 30,195 | 52,061 |
| Contributions subsequent to the measurement date, including implicit subsidy | <u>13,830</u> | <u>-</u> |
| Totals | <u>\$ 118,095</u> | <u>\$ 131,390</u> |

The \$13,830 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and the December 31, 2021 implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2022.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 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:

| Fiscal Year Ending June 30, | Amortization/ (Accretion) |
|--------------------------------|------------------------------|
| 2022 | \$ (7,832) |
| 2023 | (11,527) |
| 2024 | (4,911) |
| 2025 | (2,855) |
| | <u>\$ (27,125)</u> |

Actuarial Assumptions The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using the generally accepted actuarial principles.

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2021:

| | |
|--------------------------------|--|
| Inflation | 2.30% |
| Payroll Growth Rate | 2.00% CERS Non-hazardous |
| Salary Increase | 3.30% - 10.30%, varies by service |
| Investment Rate of Return | 6.25% |
| Healthcare Trend Rates | |
| Pre-65 | Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. |
| Post-65 | Initial trend starting at 6.30% at 2013, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. |
| Mortality | |
| Pre-retirement | Pub-2010 General Mortality table, for the Nonhazardous Plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. |
| Post-retirement (non-disabled) | System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. |
| Post-retirement (disabled) | Pub-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. |

The single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020, valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material assumption changes.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Nonhazardous plan to elect to cease participating in the KERS Nonhazardous Plan as of June 30, 2020, under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session delayed the effective date of cessation for these provisions to June 30, 2021. Only one employer elected to cease participation under these provisions and freeze benefit accruals for their current employees. As such, there is no material impact on the total OPEB liability due to this legislation.

Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that were payable starting July 1, 2020.

Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become "total and permanently disabled" in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions.

Additionally, House Bill 8 passed during the 2021 legislative session changed how employer contributions are allocated and collected from the participating employers in the KERS Nonhazardous Plan. This change does not impact the calculation of the total OPEB liability but does impact the allocation of required contributions amongst the participating employers. As a result of this legislation, there are several employers that will experience a relatively large change in proportionate share of the Collective OPEB Amounts in the KERS Nonhazardous insurance plan from 2020 to 2021. Additional information is provided in Section 1 of the GASB 75 KERS report. There were no other material plan provision changes.

The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the table below.

| Asset Class | Target Allocation | Long-Term Nominal Rate of Return |
|--------------------------------|-------------------|----------------------------------|
| Growth | 68.50% | |
| US Equity | 21.75% | 5.70% |
| Non US Equity | 21.75% | 6.35% |
| Private Equity | 10.00% | 9.70% |
| Specialty Credit/High Yield | 15.00% | 2.80% |
| Liquidity | 11.50% | |
| Core Bonds | 10.00% | (0.00)% |
| Cash | 1.50% | (0.60)% |
| Diversifying Strategies | 20.00% | |
| Real Estate | 10.00% | 5.40% |
| Opportunistic | 0.00% | N/A |
| Real Return | 10.00% | 4.55% |
| Total | 100.00% | |
| Expected real return | | 5.00% |
| Long-term inflation assumption | | 2.30% |

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Discount Rate. The single discount rate of 5.20% for CERS non-hazardous plans were used to measure the total OPEB liability as of June 30, 2021. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Implicit Subsidy. The fully-insured premiums paid for Kentucky Employee's Health Plan are blended rates based on the combined experience of the 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 non-Medicare eligible retirees. GASB Statement No. 75 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability. The District's implicit subsidy for the year ended December, 31, 2021, was \$5,155.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of present, as well as what the plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.20%) or one percentage point higher (6.20%) than the current rate (5.20%):

| | 1% Decrease 4.20% | Current Discount Rate 5.20% | 1% Increase 6.20% |
|--|-------------------------|--------------------------------------|-------------------------|
| The District's proportionate share of the net OPEB liability | \$ 215,119 | \$ 156,679 | \$ 108,719 |

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate. The following presents the District's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as, what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates.

| | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|--|----------------|---|----------------|
| The District's proportionate share of the net OPEB liability | \$ 108,719 | \$ 156,679 | \$ 209,653 |

Payables to the OPEB plan. At December 31, 2021, the financial statements include \$1,730 in contractually required employee and employer OPEB contributions primarily for the month ended December 31, 2021. The obligation was paid within prescribed time limits.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

8. COMMITMENTS

Purchase Contracts

South Hopkins Water District

On March 3, 2004, the District entered into a long-term contract with South Hopkins Water District for the purchase of treated water. The contract for water is for a period of 40 years and calls for water sales not to exceed 250,000 gallons per month and not to exceed 15,000 gallons in any 24-hour period unless an emergency exists. The original rate calculation was equal to the cost of water from Dawson Springs, plus amortization of supply facilities (\$0.12 per 1,000 gallons), plus additional plumbing costs, plus 25%. Effective July 12, 2019 the rate changed to \$3.16 per 1,000 gallons. Payment is due by the 20th of each month. The District purchased \$2,686 from South Hopkins Water District during the year ended December 31, 2021.

Princeton Water & Wastewater

On October 11, 2002, the District entered into a long-term contract with Princeton Water & Wastewater for the purchase of treated water. The contract for water is for a period of 45 years and calls for water sales not to exceed 12 million gallons per month. The rate increased on July 22, 2020 to \$2.44 per 200 cubic feet. Payment is due by the 15th of each month. The District purchased \$339,962 from Princeton Water & Wastewater during the year ended December 31, 2021.

Caldwell County Fiscal Court

On April 8, 2010, the District entered into a lease agreement with the Caldwell County Fiscal Court to lease the premises located at 118 W. Market Street. The term of this lease is for ten (10) years, ending on March 31, 2020, subject however to continuation of four (4) ten (10) year consecutive terms at the mutual agreement of both parties. There are no monetary terms associated with the lease; however, the District is responsible for taxes and insurance on the property.

9. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2021 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

10. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Caldwell County, Kentucky. For the year ended December 31, 2021, the revenues from these sources totaled \$1,359,484. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2021

11. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employees, with one (1) year continuous service, are entitled to vacation pay according to the following schedule:

| | |
|---------------|---------|
| 1 to 3 years | 1 week |
| 3 to 10 years | 2 weeks |
| 10+ years | 3 weeks |

Employees must use vacation within the twelve month period after the time is earned. Upon termination of employment, an employee will be paid for all unused vacation leave. The liability for unused vacation time at December 31, 2021 was \$13,689.

The District's policy on sick pay states that employees will be granted one sick day per month. During the employee's probationary period sick leave may be earned but not taken. Sick leave is forfeited upon termination of employment. The District's policy is to recognize the cost of compensated medical leave when actually paid to employees.

12. LITIGATION

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Caldwell County Water District
Schedule of Revenues, Expenses, and
Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2021

| <u>Revenues</u> | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance |
|---|--------------------------------|---------------------------|----------------------------|--|
| | <u>Original</u> | <u>Final</u> | | with Final Budget Positive (Negative) |
| Water revenues | \$ 1,361,373 | \$ 1,361,373 | \$ 1,359,484 | \$ (1,889) |
| Other | <u>17,113</u> | <u>17,113</u> | <u>26,404</u> | <u>9,291</u> |
| Total Operating Revenues | <u>1,378,486</u> | <u>1,378,486</u> | <u>1,385,888</u> | <u>7,402</u> |
| <u>Operating Expenses</u> | | | | |
| Administrative and general expenses | 378,182 | 378,182 | 335,153 | 43,029 |
| Source of supply purchases | 342,489 | 342,489 | 342,648 | (159) |
| Transmission and distribution expenses | 346,126 | 346,126 | 262,860 | 83,266 |
| Depreciation | 231,500 | 231,500 | 236,158 | (4,658) |
| Payroll and other taxes | 25,647 | 25,647 | 23,250 | 2,397 |
| Customer accounts expenses | 13,549 | 13,549 | 17,437 | (3,888) |
| Water treatment | 12,500 | 12,500 | 5,812 | 6,688 |
| Bad debt expense (recovery) | 250 | 250 | (78) | 328 |
| Total Operating Expenses | <u>1,350,243</u> | <u>1,350,243</u> | <u>1,223,240</u> | <u>127,003</u> |
| <u>Operating Income (Loss)</u> | <u>28,243</u> | <u>28,243</u> | <u>162,648</u> | <u>134,405</u> |
| <u>Nonoperating Revenues (Expenses)</u> | | | | |
| Investment income | 1,195 | 1,195 | 1,201 | 6 |
| Grant income | 10,639 | 10,639 | - | (10,639) |
| Interest on debt | (90,030) | (90,030) | (104,922) | (14,892) |
| Gain (loss) from disposal of assets | 4,676 | 4,676 | - | (4,676) |
| Total Nonoperating Revenue (Expenses) | <u>(73,520)</u> | <u>(73,520)</u> | <u>(103,721)</u> | <u>(30,201)</u> |
| <u>Net Income before Capital Contributions</u> | (45,277) | (45,277) | 58,927 | 104,204 |
| <u>Capital Contributions</u> | <u>15,500</u> | <u>15,500</u> | <u>31,083</u> | <u>15,583</u> |
| <u>Change in Net Position</u> | <u>\$ (29,777)</u> | <u>\$ (29,777)</u> | 90,010 | <u>\$ 119,787</u> |
| <u>Net Position-Beginning of Year</u> | | | <u>6,256,891</u> | |
| <u>Net Position-End of Year</u> | | | <u>\$ 6,346,901</u> | |

Caldwell County Water District
Schedule of the Proportionate Share of the Net Pension Liability
For the Years Ended December 31
Last Ten Measurement Dates (1)

| <u>Year Ended</u> | <u>District's proportion of the net pension liability</u> | <u>District's proportionate share of the net pension liability (asset)</u> | <u>District's covered employee payroll</u> | <u>District's share of the net pension liability (asset) as a percentage of its covered employee payroll</u> | <u>Plan fiduciary net position as a percentage of the total pension liability (2)</u> |
|---------------------------------|---|--|--|--|---|
| <u>CERS Nonhazardous</u> | | | | | |
| 2021 | 0.008186% | \$ 521,922 | \$ 260,648 | 200.24% | 57.33% |
| 2020 | 0.006174% | 473,541 | 188,245 | 251.56% | 47.81% |
| 2019 | 0.008175% | 574,951 | 196,087 | 293.21% | 50.45% |
| 2018 | 0.009120% | 555,436 | 226,621 | 245.09% | 53.54% |
| 2017 | 0.012614% | 738,336 | 246,805 | 299.16% | 53.30% |
| 2016 | 0.008170% | 402,436 | 271,488 | 148.23% | 55.50% |
| 2015 | 0.008349% | 358,949 | 193,784 | 185.23% | 59.97% |
| 2014 | 0.008651% | 280,671 | 204,010 | 137.58% | 66.80% |

Note to Schedule:

(1) The amounts presented were determined as of the measurement date June 30. District payroll is reported for its' covered employees on a calendar year ending December 31.

(2) This will be the same percentage for all participant employers in the CERS Plan.

Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Caldwell County Water District
Schedule of Pension Contributions
For the Years Ended December 31
Last Ten Years

| <u>Year Ended</u> | <u>Contractually required contribution</u> | <u>Contributions relative to contractually required contribution</u> | <u>Contribution deficiency (excess)</u> | <u>District's covered employee payroll</u> | <u>Contributions as a percentage of covered employee payroll</u> |
|---------------------------------|--|--|---|--|--|
| <u>CERS Nonhazardous</u> | | | | | |
| 2021 | \$ 53,111 | \$ 53,111 | \$ - | \$ 260,648 | 19.30% / 21.17% |
| 2020 | 36,333 | 36,333 | \$ - | 188,245 | 19.30% / 19.30% |
| 2019 | 32,188 | 32,188 | \$ - | 196,087 | 16.22% / 19.30% |
| 2018 | 40,279 | 40,279 | \$ - | 226,621 | 14.48% / 16.22% |
| 2017 | 46,656 | 46,656 | \$ - | 246,805 | 13.95% / 14.48% |
| 2016 | 48,864 | 48,864 | \$ - | 271,488 | 12.42% / 13.95% |
| 2015 | 44,538 | 44,538 | \$ - | 193,784 | 12.75% / 12.42% |
| 2014 | 48,420 | 48,420 | \$ - | 204,010 | 13.74% / 12.75% |

Note to Schedule:

Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of CERS. The above contributions only include those allocated directly to the CERS pension fund.

Caldwell County Water District
Schedule of Changes in Benefits and Assumptions Pension
For the Year Ended December 31, 2021

Note A - Changes of Assumptions:

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, listed below:

2015:

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 mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

2017:

The actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

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

2018:

There have been no changes in actuarial assumption since June 30, 2017.

2019:

Payroll growth rate was reduced to 2.00% from 4.00%.

The assumed salary increases were increased to 3.30% to 11.55%, from 3.05% to 18.55%.

2020:

There have been no changes in actuarial assumptions since June 30, 2019.

2021:

The assumed salary increases were decreased to 3.30% to 10.30%, from 3.30% to 11.55%.

Caldwell County Water District
Schedule of Changes in Benefits and Assumptions Pension
For the Year Ended December 31, 2021

Note B - Method and assumptions used in calculations of actuarially determined contribution

The total pension liability, net pension liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled forward from the valuation date of June 30, 2020, to the plan's fiscal year ending June 30, 2021, using the generally accepted actuarial principles. The following actuarial methods and assumptions used to calculate the required contributions are below.

| | |
|-------------------------------|---|
| Valuation date | June 30, 2019 |
| Experience study | July 1, 2013 - June 30, 2018 |
| Actual cost method | Entry age normal |
| Amortization method | Level percent of pay |
| Remaining amortization period | 30-year closed period at June 30, 2019. <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases.</i> |
| Payroll growth rate | 2.00% |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 2.30% |
| Salary increases | 3.30% to 10.30%, varies by service for CERS |
| Investment rate of return | 6.25% |
| Mortality | System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. |
| Phase-In provision | Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018. |

Note C - Changes in benefits:

2009: A new benefit tier for members who first participate on or after September 1, 2008, was introduced which included the following changes:

1. Tiered structure for benefit accrual rates.
2. New retirement eligibility requirements.
3. Different rules for the computation of final average compensation.

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014

2018: House Bill 185 was enacted, which updated benefit provisions for active members who die in the line of duty.

2019: House Bill 1 passed during the 2019 legislative session and allowed certain agencies in the KERS Nonhazardous plan to elect to cease participating in the fund as of June 30, 2020, under different provisions than were previously established.

2020: Senate Bill 249 passed during the 2020 legislative session delayed the effective date of cessation for these provisions to June 30, 2021.

2021: Senate Bill 169 passed during 2021 legislative session increased the disability benefits for certain qualifying members who become "total and permanently disabled" in the line of duty or as a result of a duty-related disability.

House Bill 8 passed during the 2021 legislative session changed how employer contributions are allocated and collected from the participating employer in the KERS Nonhazardous plan.

Caldwell County Water District
Schedule of the Proportionate Share of the Net OPEB Liability
For the Years Ended December 31
Last Ten Measurement Dates (1)

| <u>Year Ended</u> | <u>District's proportion of the net OPEB liability</u> | <u>District's proportionate share of the net OPEB liability (asset)</u> | <u>District's covered employee payroll</u> | <u>District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll</u> | <u>Plan fiduciary net position as a percentage of the total OPEB liability (2)</u> |
|---------------------------------|--|---|--|---|--|
| <u>CERS Nonhazardous</u> | | | | | |
| 2021 | 0.008184% | \$ 156,679 | \$ 260,648 | 60.11% | 62.91% |
| 2020 | 0.006172% | 149,035 | 188,245 | 79.17% | 51.67% |
| 2019 | 0.008173% | 137,466 | 196,087 | 70.10% | 60.44% |
| 2018 | 0.009119% | 161,906 | 226,621 | 71.44% | 57.62% |
| 2017 | 0.012614% | 253,585 | 246,805 | 102.75% | 52.40% |

Note to Schedule:

(1) The amounts presented were determined as of the measurement date June 30. District payroll is reported for its' covered employees on calendar year ending December 31.

(2) This will be the same percentage for all participant employers in the CERS Plan.

Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Caldwell County Water District
Schedule of OPEB Contributions
For the Years Ended December 31
Last Ten Years

| <u>Year Ended</u> | <u>Contractually required contribution</u> | <u>Contributions relative to contractually required contribution</u> | <u>Contribution deficiency (excess)</u> | <u>District's covered employee payroll</u> | <u>Contributions as a percentage of covered employee payroll</u> |
|---------------------------------|--|--|---|--|--|
| <i>CERS Nonhazardous</i> | | | | | |
| 2021 | \$ 13,938 | \$ 13,938 | \$ - | \$ 260,648 | 4.76% / 5.78% |
| 2020 | 8,959 | 8,959 | \$ - | 188,245 | 4.76% / 4.76% |
| 2019 | 12,040 | 12,040 | \$ - | 196,087 | 5.26% / 4.76% |
| 2018 | 13,054 | 13,054 | \$ - | 226,621 | 4.70% / 5.26% |
| 2017 | 11,641 | 11,641 | \$ - | 246,805 | 4.73% / 4.70% |

Note to Schedule:

Contributions in relation to statutorily required OPEB contributions are the contributions an employer actually made to the OPEB Plan, as distinct from the statutorily required contributions.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of CERS. The above contributions only include those allocated directly to the CERS insurance fund.

Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Caldwell County Water District
Schedule of Changes in Benefits and Assumptions OPEB
For the Year Ended December 31, 2021

Note A - Changes of Assumptions:

2017:

The actuarial valuation was performed as of June 30, 2016. Gabriel Roeder Smith Retirement Consulting rolled forward from the valuation date to the plan's fiscal year end of June 30, 2017 using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017. Specifically, a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

2018:

There have been no changes in actuarial assumptions since June 30, 2017.

2019:

The payroll growth rate was reduced to 2.0% from 4.0%.

The inflation rate was reduced to 2.30% from 3.25%.

The investment rate of return was reduced to 6.25% from 7.50%.

2020:

There have been no changes in actuarial assumptions since June 30, 2019.

2021:

Salary increases were reduced to 3.30% to 10.30%, from 3.30% to 11.55%.

Note B - Method and assumptions used in calculations of actuarially determined contributions.

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled forward from the valuation date of June 30, 2020 to the plan's fiscal year ending June 30, 2021 using generally accepted actuarial principles. The actuarial methods and assumptions used to calculate the required contributions are below.

| | |
|-------------------------------|---|
| Valuation date | June 30, 2019 |
| Experience study | July 1, 2013 - June 30, 2018 |
| Actual cost method | Entry age normal |
| Amortization method | Level percent of pay |
| Remaining amortization period | 30-year closed period at June 30, 2019. <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases.</i> |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 2.30% |
| Salary increases | 3.30% to 10.30%, varies by service for CERS |
| Payroll growth rate | 2.00% |
| Investment rate of return | 6.25% |
| Healthcare Trend Rates | |
| Pre-65 | Initial trend starting at 5.50% at January 1, 2021, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. |
| Post-65 | Initial trend starting at 5.50% at January 1, 2021, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. |
| Mortality | System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. |

Caldwell County Water District
Schedule of Changes in Benefits and Assumptions OPEB
For the Year Ended December 31, 2021

Phase-In provision

Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018.

Notes C - Changes of Benefits:

2019: House Bill 1 passed during the 2019 legislative session and allowed certain agencies in the KERS Nonhazardous plan to elect to cease participating in the fund as of June 30, 2020, under different provisions than were previously established.

2020: Senate Bill 249 passed during the 2020 legislative session delayed the effective date of cessation for these provisions to June 30, 2021.

2021: Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases.

Senate Bill 169 passed during 2021 legislative session increased the disability benefits for certain qualifying members who become "total and permanently disabled" in the line of duty or as a result of a duty-related disability.

House Bill 8 passed during the 2021 legislative session changed how employer contributions are allocated and collected from the participating employer in the KERS Nonhazardous plan.

OTHER INFORMATION

Caldwell County Water District
Detail Schedule of Operating Expenses
For the Year Ended December 31, 2021

| | |
|--|-----------------------------------|
| <u>Water purchases</u> | \$ <u>342,648</u> |
| <u>General operating expenses</u> | |
| Salaries & wages | 122,364 |
| Employee insurance | 49,123 |
| Legal & professional | 30,724 |
| Insurance | 30,379 |
| Utilities | 23,901 |
| Fuel | 22,104 |
| Retirement | 21,983 |
| Other contract services | 13,609 |
| Office supplies | 7,433 |
| License fees | 5,549 |
| Dues & subscriptions | 3,871 |
| Uniforms | 3,010 |
| Advertising | 1,264 |
| Training & education | 240 |
| Bank charges | 15 |
| Miscellaneous | <u>(416)</u> |
| Total general operating expenses | <u>335,153</u> |
| <u>Depreciation expense</u> | <u>236,158</u> |
| <u>Transmission and distribution expenses</u> | |
| Salaries & wages | 168,815 |
| Supplies & materials | 60,061 |
| Contract labor - meter reading | 24,557 |
| Tools and equipment | 4,907 |
| Repairs & maintenance | <u>4,520</u> |
| Total water expenses | <u>262,860</u> |
| <u>Payroll and other taxes</u> | <u>23,250</u> |
| <u>Customer accounts expenses</u> | |
| Postage | 10,664 |
| Credit card fees | <u>6,773</u> |
| Total customer accounts expenses | <u>17,437</u> |
| <u>Water treatment</u> | |
| Testing | <u>5,812</u> |
| Total water treatment | <u>5,812</u> |
| <u>Bad debt expense (recovery)</u> | <u>(78)</u> |
| <u>Total operating expenses</u> | \$ <u><u>1,223,240</u></u> |

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

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

To the Board of Commissioners
Caldwell County Water District
Princeton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Caldwell County Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Caldwell County Water District's basic financial statements, and have issued our report thereon dated July 25, 2022.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2021-1).

Report on Compliance and Other Matters

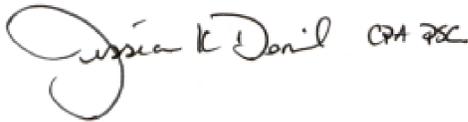
As part of obtaining reasonable assurance about whether the Caldwell County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a 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 that are required to be reported under *Government Auditing Standards*.

Caldwell County Water District's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Caldwell County Water District's response to findings identified in our audit described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Handwritten signature of Jessica K. Donil CPA FSC in black ink.

Eddyville, Kentucky
July 25, 2022

Caldwell County Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2021

2021-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We agree with the finding and have put in place certain compensating controls to help alleviate exposure. A third party accounting firm assists in bookkeeping, payroll, and preparing monthly reports for Board review.

Caldwell County Water District
Schedule of Prior Year Findings and Responses
For The Year Ended December 31, 2020

2020-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We agree with the finding and have put in place certain compensating controls to help alleviate exposure. A third party accounting firm assists in bookkeeping, payroll, and preparing monthly reports for Board review.