

**KNOTT COUNTY WATER AND SEWER DISTRICT  
Vicco, Kentucky**

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**FINANCIAL STATEMENTS  
December 31, 2022 and 2021**

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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Knott County Water and Sewer District  
Vico, Kentucky

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the accompanying financial statements of the Knott County Water and Sewer District (the District), as of and for the years ended December 31, 2022 and 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 financial position of the Knott County Water and Sewer District, as of December 31, 2022 and 2021, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Knott County Water and Sewer 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 opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 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 beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' 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 auditors' report that includes our opinion. 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 generally accepted auditing standards 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 error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. 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 generally accepted auditing standards 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 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 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 pension and OPEB schedules on pages 22-25 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 District's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
March 29, 2023

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31,**

<b>ASSETS</b>	<b>2022</b>	<b>2021</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 447,609	\$ 393,053
Customer accounts receivable, net	472,625	388,223
Prepaid expenses	-	21,876
Insurance proceeds receivable	1,000,000	-
Grant receivable	169,468	-
Total current assets	<u>2,089,702</u>	<u>803,152</u>
<b>Restricted assets</b>		
Cash and cash equivalents	1,624,571	1,224,645
Certificate of deposit	331,820	322,849
Total restricted assets	<u>1,956,391</u>	<u>1,547,494</u>
<b>Capital assets</b>		
Land	170,381	150,585
Construction-in-progress	-	1,724,165
Utility plant and equipment, net	50,152,894	49,561,084
Capital assets, net	<u>50,323,275</u>	<u>51,435,834</u>
Total assets	<u>54,369,368</u>	<u>53,786,480</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension	201,803	231,591
Deferred outflows - OPEB	201,400	259,061
Total deferred outflows of resources	<u>403,203</u>	<u>490,652</u>
Total assets and deferred outflows of resources	<u>\$ 54,772,571</u>	<u>\$ 54,277,132</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 268,079	\$ 40,489
Accrued compensation	22,793	30,813
Payroll liabilities	42,057	33,688
Accrued interest	508	508
Other current liabilities	347,283	175,447
Current portion of long-term debt	59,981	58,356
Total current liabilities	<u>740,701</u>	<u>339,301</u>
<b>Noncurrent liabilities</b>		
Net pension liability	1,599,636	1,385,139
Net OPEB liability	436,620	415,799
Notes payable	591,189	201,107
Total long-term liabilities	<u>2,627,445</u>	<u>2,002,045</u>
Total liabilities	<u>3,368,146</u>	<u>2,341,346</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	14,245	198,060
Deferred inflows - OPEB	157,070	189,771
Total deferred inflows of resources	<u>171,315</u>	<u>387,831</u>
<b>NET POSITION</b>		
Net investment in capital assets	49,672,105	51,176,371
Restricted	456,628	1,547,494
Unrestricted	1,104,377	(1,175,910)
Total net position	<u>51,233,110</u>	<u>51,547,955</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 54,772,571</u>	<u>\$ 54,277,132</u>

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

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
for the years ended December 31,

	<b>2022</b>	<b>2021</b>
<b>OPERATING INCOME</b>		
Water service	\$ 3,330,106	\$ 3,195,913
Sewer service	111,367	101,921
Penalties	35,283	33,546
Insurance proceeds	1,000,000	-
Grant income	308,166	-
Miscellaneous income	8,395	4,693
Reconnection and collection fees	<u>468</u>	<u>580</u>
Total operating income	<u>4,793,785</u>	<u>3,336,653</u>
<b>OPERATING EXPENSES</b>		
Salaries and fringe benefits	1,248,440	1,128,818
Commissioners	23,000	30,200
Office and advertising expense	16,035	12,853
Water consumption	114,916	113,493
Electricity	628,418	529,544
Telephone	18,941	20,047
Travel and training	4,739	3,607
Rents	6,266	1,887
Contractual fees	367,105	263,336
Vehicle expense	104,447	68,736
Operating supplies and maintenance	1,300,763	415,597
Licenses, permits, dues, and fees	11,321	8,739
Insurance and bonds	<u>67,940</u>	<u>63,521</u>
Total operating expense	<u>3,912,331</u>	<u>2,660,378</u>
Operating income before depreciation	881,454	676,275
Depreciation expense	<u>1,411,280</u>	<u>1,405,592</u>
<b>OPERATING (LOSS)</b>	(529,826)	(729,317)
Non-operating income (expenses)		
Interest income	9,198	8,976
Refunds to customers	-	(32)
Gain on sale of capital assets	3,919	-
Interest expense	<u>(10,350)</u>	<u>(9,209)</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(527,059)	(729,582)
Capital contributions		
Tap fees	22,746	40,278
Contributed capital	<u>189,468</u>	<u>1,530,093</u>
<b>CHANGE IN NET POSITION</b>	(314,845)	840,789
Net position, beginning of year	<u>51,547,955</u>	<u>50,707,166</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 51,233,110</u>	<u>\$ 51,547,955</u>

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

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
for the years ended December 31,

	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 3,392,822	\$ 3,278,420
Payment to suppliers	(2,389,057)	(1,569,076)
Payment for employee services and benefits	(1,164,841)	(1,023,292)
Grant income	308,166	-
Other receipts	<u>8,395</u>	<u>4,693</u>
Net cash provided by operating activities	<u>155,485</u>	<u>690,745</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(109,252)	(97,607)
Contributed capital and tap fees	22,746	109,923
Proceeds on sale of capital assets	3,919	-
Refunds issued to customers	-	(32)
Proceeds from issuance of debt	450,000	302,163
Principal paid on capital debt	(58,293)	(362,360)
Interest paid on capital debt	<u>(10,350)</u>	<u>(13,968)</u>
Net cash provided (used) by financing activities	<u>298,770</u>	<u>(61,881)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>227</u>	<u>249</u>
Net cash provided by investing activities	<u>227</u>	<u>249</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	454,482	629,113
Cash and cash equivalents at beginning of year	<u>1,617,698</u>	<u>988,585</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 2,072,180</u>	<u>\$ 1,617,698</u>
<b>Reconciliation of operating (loss) to net cash provided by operating activities:</b>		
Operating (loss)	\$ (529,826)	\$ (729,317)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	1,411,280	1,405,592
Net changes in pension liability	60,470	109,976
Net changes in OPEB liability	45,780	22,343
Changes in assets and liabilities:		
(Increase) decrease in receivables	(1,084,402)	(53,540)
(Increase) decrease in prepaid expenses	21,876	(797)
Increase (decrease) in accounts payable	227,590	(23,216)
Increase (decrease) in payroll and other liabilities	8,369	3,420
Increase (decrease) in other current liabilities	<u>(5,652)</u>	<u>(43,716)</u>
Net cash provided by operating activities	<u>\$ 155,485</u>	<u>\$ 690,745</u>
Supplemental disclosure of cash flow information:		
Non-cash capital and related financing information:		
Fair value of contributed capital assets	<u>\$ 169,468</u>	<u>\$ 1,530,093</u>

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



**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2022 and 2021**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

**Nature of Activities**

Knott County Water and Sewer District (the District) was created by the Knott County Fiscal Court on February 10, 1999 to be governed and operated under rules and procedures established under Kentucky Revised Statutes (KRS) Chapter 74, relating to water districts and KRS Chapter 220 relating to sanitation districts. The entity is expanding its operating activities into parts of Knott County not presently served with water and sewer utility services

**Basis of Presentation**

The Governmental Accounting Standards Board (GASB) Codification creates a framework for basic financial statements that report the government's financial activities. Financial statements include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Knott County Water and Sewer District is considered a special purpose government engaged in a business-type activity. Therefore, no governmental type funds are recognized and instead, proprietary fund financial statements are presented.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

**Basis of Accounting**

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. For its water and sewer enterprise operations, the District uses the full-accrual basis of accounting where revenues are recorded when earned and expenses are recognized when incurred.

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

**Change in Accounting Policy**

In June 2017, the GASB issued Statement No. 87, *Leases* which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In addition, GASB 87 requires the lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District, implemented GASB 87 during the fiscal year ending December 31, 2022. These changes were incorporated in the District's December 31, 2022, financial statements and had no effect on the beginning net position of the District.

**Cash and Cash Equivalents**

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

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2022 and 2021**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets and Depreciation**

Capital assets are stated at historical cost. Donated assets are valued at their fair market value on the date of donation. Capital assets costing over \$1,500 are recorded and depreciated using the straight-line method of accounting over the respective assets useful lives as follows:

Equipment	5-20 years
Transmission lines	30-63 years
Water wells, structures and improvements	15-63 years

**Allowance for Doubtful Accounts**

Knott County Water and Sewer District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimates of probable losses. The allowance for doubtful accounts was estimated at \$25,000 as of December 31, 2022 and 2021.

**Net Position**

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

**Restricted Net Position**

Restricted net position reflects funds held in various reserve accounts to meet the covenants as may be specified and defined in the bond and note indentures, or as restrictions imposed by grantors. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for utility services provided. Non-operating includes interest income/expense, gain/loss on disposal of assets and refunds to customers.

**Materials and Supplies**

Purchases of materials and supplies are expensed when purchased and are not inventoried and reflected in the statement of net position. Generally, supplies are purchased as needed. This departure from generally accepted accounting principles (GAAP) is not considered material to the financial statements.

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2022 and 2021**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

**Pensions**

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

**Postemployment Benefits Other Than Pensions (OPEB)**

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

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Management's Review of Subsequent Events**

The District has evaluated and considered the need to recognize or disclose subsequent events through March 29, 2023, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2022, have not been evaluated by the District.

**2. CASH AND INVESTMENTS**

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The District's deposits at December 31, 2022 and 2021, were under collateralized by \$1,145,167 and \$456,873, respectively. The bank balances of the District's deposits were \$2,646,785 and \$2,026,716 at December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, \$1,001,618 and \$1,069,843, respectively, of the District's deposits were covered by collateral held by the custodial banks in the District's name. As of December 31, 2022 and 2021, \$500,000 of the District's deposits were covered by Federal Depository Insurance.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021**

**2. CASH AND INVESTMENTS**

**Statement of Cash Flows**

The statement of cash flows includes as cash and cash equivalents the following as of December 31,:

	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 447,609	\$ 393,053
Restricted cash and cash equivalents	<u>1,624,571</u>	<u>1,224,445</u>
	<u>\$ 2,072,180</u>	<u>\$ 1,617,698</u>

Certificate of deposit – As of December 31, 2022 and 2021, the District held a certificate of deposit with a book value of \$331,820 and \$322,849, respectively. The certificate of deposit has an interest rate of 2.75% and matures on May 2, 2024.

**3. CAPITAL ASSETS**

The following is a summary of changes in capital assets for the District at December 31, 2022:

	<b>Balance 12/31/21</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12/31/22</b>
<b>Capital Assets – Water</b>				
Not Depreciated				
Land and land rights	\$ 117,294	\$ -	\$ -	\$ 117,294
Construction-in-progress	1,724,165	169,468	(1,893,633)	-
Depreciated				
Water plant and transmission lines	56,315,327	1,893,633	-	58,208,960
Vehicles	533,126	-	(49,762)	483,364
Operating equipment	275,522	91,960	-	367,482
Office furniture and equipment	<u>178,992</u>	<u>11,796</u>	-	<u>190,788</u>
Subtotal	<u>59,144,426</u>	<u>2,166,857</u>	<u>(1,943,395)</u>	<u>59,367,888</u>
Accumulated depreciation – Water				
Water plant and transmission lines	13,474,836	1,167,878	-	14,642,714
Vehicles	380,649	33,717	(49,763)	364,603
Operating equipment	182,125	17,431	-	199,556
Office furniture and equipment	<u>122,125</u>	<u>6,018</u>	-	<u>128,143</u>
Subtotal	<u>14,159,735</u>	<u>1,225,044</u>	<u>(49,763)</u>	<u>15,335,016</u>
Total – Water	<u>44,984,691</u>	<u>941,813</u>	<u>(1,893,632)</u>	<u>44,032,872</u>
<b>Capital Assets – Sewer</b>				
Not depreciated				
Land and land rights	33,291	19,796	-	53,087
Depreciated				
WWTPs and collection systems	7,644,103	5,700	-	7,649,803
Operating equipment	<u>78,968</u>	-	-	<u>78,968</u>
Subtotal	<u>7,756,362</u>	<u>25,496</u>	-	<u>7,781,858</u>
Accumulated depreciation – Sewer				
Vehicles	1,247,333	181,410	-	1,428,743
Operating equipment	<u>57,886</u>	<u>4,826</u>	-	<u>62,712</u>
Subtotal	<u>1,305,219</u>	<u>186,236</u>	-	<u>1,491,455</u>
Total – Sewer	<u>6,451,143</u>	<u>(160,740)</u>	-	<u>6,290,403</u>
<b>Total capital assets, net</b>	<u>\$ 51,435,834</u>	<u>\$ 781,073</u>	<u>\$ (1,893,632)</u>	<u>\$ 50,323,275</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021**

**3. CAPITAL ASSETS (CONTINUED)**

The following is a summary of changes in capital assets for the District at December 31, 2021:

	<b>Balance 12/31/20</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12/31/21</b>
<b>Capital Assets – Water</b>				
Not Depreciated				
Land and land rights	\$ 117,294	\$ -	\$ -	\$ 117,294
Construction-in-progress	351,478	1,372,687	-	1,724,165
Depreciated				
Water plant and transmission lines	56,112,563	202,764	-	56,315,327
Vehicles	533,126	-	-	533,126
Operating equipment	260,700	14,822	-	275,522
Office furniture and equipment	177,713	1,279	-	178,992
Subtotal	<u>57,552,874</u>	<u>1,591,552</u>	<u>-</u>	<u>59,144,426</u>
Accumulated depreciation – Water				
Water plant and transmission lines	12,310,151	1,164,685	-	13,474,836
Vehicles	343,247	37,402	-	380,649
Operating equipment	169,652	12,473	-	182,125
Office furniture and equipment	117,328	4,797	-	122,125
Subtotal	<u>12,940,378</u>	<u>1,219,357</u>	<u>-</u>	<u>14,159,735</u>
Total – Water	<u>44,612,496</u>	<u>372,195</u>	<u>-</u>	<u>44,984,691</u>
<b>Capital Assets – Sewer</b>				
Not depreciated				
Land and land rights	33,291	-	-	33,291
Depreciated				
WWTPs and collection systems	7,644,103	-	-	7,644,103
Operating equipment	78,968	-	-	78,968
Subtotal	<u>7,756,362</u>	<u>-</u>	<u>-</u>	<u>7,756,362</u>
Accumulated depreciation – Sewer				
Vehicles	1,065,924	181,409	-	1,247,333
Operating equipment	53,060	4,826	-	57,886
Subtotal	<u>1,118,984</u>	<u>186,235</u>	<u>-</u>	<u>1,305,219</u>
Total – Sewer	<u>6,637,378</u>	<u>(186,235)</u>	<u>-</u>	<u>6,451,143</u>
<b>Total capital assets, net</b>	<u>\$ 51,249,874</u>	<u>\$ 185,960</u>	<u>\$ -</u>	<u>\$ 51,435,834</u>

Total depreciation expense is allocated as follows for the years ended December 31,:

	<b>2022</b>	<b>2021</b>
Water operations	\$ 1,225,044	\$ 1,219,357
Sewer operations	<u>186,236</u>	<u>186,235</u>
	<u>\$ 1,411,280</u>	<u>\$ 1,405,592</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT  
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**4. OTHER CURRENT LIABILITIES**

Other current liabilities consisted of the following at December 31,:

	<b>2022</b>	<b>2021</b>
Customer deposit payable	\$ 152,324	\$ 149,679
Engineering contract payable	169,468	-
Deferred revenue	10,000	10,000
Utility tax payable	14,598	14,948
Sales tax payable	<u>893</u>	<u>820</u>
Total other current liabilities	<u>\$ 347,283</u>	<u>\$ 175,447</u>

**5. LONG-TERM DEBT**

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31,:

<b>Bonds and Notes</b>	<b>2022</b>	<b>2021</b>
Bank of Hindman Loan - \$302,162, direct borrowing note dated 3/5/21, was issued to consolidate and pay off existing loans and bonds, with payments through 2026, bearing interest at a rate of 2.75%.	\$ 201,170	\$ 259,463
Bank of Hindman LOC - \$450,000, draw on the \$2 million line of credit was issued on 10/21/22, to pay for costs related to flood damage incurred in 2022, with payments through 2024, bearing interest at a rate of 4.50%	<u>450,000</u>	<u>-</u>
Total	651,170	259,463
Less: current portion of debt	<u>(59,981)</u>	<u>(58,356)</u>
Long-term debt	<u>\$ 591,189</u>	<u>\$ 201,107</u>

The annual requirements to amortize notes from direct borrowings outstanding as of December 31, 2022 are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest and Fees</b>	<b>Payment</b>
2023	\$ 59,981	\$ 4,778	\$ 64,759
2024	511,642	28,360	540,002
2025	63,369	1,390	64,759
2026	<u>16,178</u>	<u>1,390</u>	<u>17,568</u>
	<u>\$ 651,170</u>	<u>\$ 35,918</u>	<u>\$ 687,088</u>

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**5. LONG-TERM DEBT (CONTINUED)**

The following is a summary of changes in long-term debt, net pension liability, and net OPEB liability for the year ended December 31, 2022:

	December 31, 2021	Additions	Retirements	December 31, 2022	Due Within One Year
Net pension liability	\$1,385,139	\$ 214,497	\$ -	\$ 1,599,636	\$ -
Net OPEB liability	415,799	20,821	-	436,620	-
Notes payable	<u>259,463</u>	<u>450,000</u>	<u>(58,293)</u>	<u>651,170</u>	<u>59,981</u>
	<u>\$2,060,401</u>	<u>\$ 685,318</u>	<u>\$ (58,293)</u>	<u>\$ 2,687,426</u>	<u>\$ 59,981</u>

The following is a summary of changes in long-term debt, net pension liability, and OPEB liability for the year ended December 31, 2021:

	December 31, 2020	Additions	Retirements	December 31, 2021	Due Within One Year
Net pension liability	\$ 1,481,981	\$ -	\$ (96,842)	\$ 1,385,139	\$ -
Net OPEB liability	466,447	-	(50,648)	415,799	-
Bonds payable	226,610	-	(226,610)	-	-
Notes payable	<u>93,050</u>	<u>166,413</u>	<u>-</u>	<u>259,463</u>	<u>58,356</u>
	<u>\$ 2,268,088</u>	<u>\$ 166,413</u>	<u>\$ (374,100)</u>	<u>\$ 2,060,401</u>	<u>\$ 58,356</u>

The District was required to maintain debt service and depreciation reserves in accordance with their various debt agreements for debts that were paid off in 2021. The balance in the debt service reserve as of December 31, 2021 was \$120,886. The balance in the depreciation reserve as of December 31, 2021 was \$866,787. The District has fully funded its debt service and depreciation reserves at December 31, 2021. The District's note from direct borrowing contains a provision that in an event of default, the debt holder may declare all payments due under the note to be immediately due and payable.

**6. RETIREMENT PLAN**

The Knott County Water and Sewer District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority's website.

*Plan Description* – CERS is a cost-sharing multiple-employer defined benefit pension 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 retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**6. RETIREMENT PLAN (CONTINUED)**

*Contributions* – For the year ended December 31, 2022, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% through June 30<sup>th</sup> and 26.79% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 7. For the year ended December 31, 2022, plan members contributed 22.78% through June 30<sup>th</sup> and 23.40% thereafter to the pension for non-hazardous job classifications. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$163,462 for the year ended December 31, 2022, or 100% of the required contribution. The District contributed \$127,901 for the year ended December 31, 2021, or 100% of the required contribution.

*Benefits* – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old and 4 years service At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date Unreduced retirement  Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement  Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ Not available



**KNOTT COUNTY WATER AND SEWER DISTRICT  
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**6. RETIREMENT PLAN (CONTINUED)**

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2022, the District reported a liability of \$1,599,636, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2022, the District's proportion was .02213 percent, which was an increase of .0004 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized pension expense of \$214,630. For the year ended December 31, 2021, the District recognized pension expense of \$223,062. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 1,710	\$ 14,245
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	41,009	-
Changes in proportion and differences between District contributions and proportionate share of contributions	83,722	-
District contributions subsequent to the measurement date	<u>75,362</u>	<u>-</u>
 Total	 <u>\$ 201,803</u>	 <u>\$ 14,245</u>

The \$75,362 of deferred outflows of resources 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2022 will be recognized in pension expense as follows:

**Year ending December 31,**

2023	\$ 66,004
2024	\$ 14,192
2025	\$ (13,442)
2026	\$ 45,442

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**6. RETIREMENT PLAN (CONTINUED)**

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2022, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement 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 actuarial assumption used in the June 30, 2022 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2022, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
<b>Total</b>	<b>100.00%</b>	<b>4.28%</b>
<b>Long term inflation assumption</b>		<b>2.30%</b>
<b>Expected nominal return for portfolio</b>		<b>6.58%</b>

*Discount Rate* – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the closed 30-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
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**6. RETIREMENT PLAN (CONTINUED)**

*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 percent, 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 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	<b>Discount rate</b>	<b>District's proportionate share of net pension liability</b>
1% decrease	5.25%	\$ 1,999,347
Current discount rate	6.25%	\$ 1,599,636
1% increase	7.25%	\$ 1,269,042

*Payable to the Pension Plan –* At December 31, 2022 and 2021, the District reported a payable of \$24,380 and \$21,487, respectively, for the outstanding amount of contributions payable to the pension plan. The payable includes both the pension and insurance contribution allocation.

**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Plan Description –* As more fully described in Note 6, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions –* As more fully described in Note 6, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2022, the employer's contribution was 4.17% through June 30<sup>th</sup> and 3.39% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

For the year ended December 31, 2022, the District contributed \$26,494, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2021, the District contributed \$33,429, or 100% of the required contribution for non-hazardous job classifications.

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*Benefits* – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2022, the District reported a liability for its proportionate share of the net OPEB liability of \$436,620. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021 and was rolled forward using generally accepted actuarial procedures.

The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2022 was .02213 percent, which was an increase of .0004 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized OPEB expense of \$82,031. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 43,949	\$ 100,127
Changes of assumptions	69,055	56,900
Net difference between projected and actual earnings on Plan investments	17,721	-
Changes in proportion and differences between District contributions and proportionate share of contributions	42,187	43
District contributions subsequent to the measurement date	<u>28,488</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 201,400</u></b>	<b><u>\$ 157,070</u></b>

**KNOTT COUNTY WATER AND SEWER DISTRICT  
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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

The \$28,488 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2023. This includes an adjustment of \$15,742 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

<b>Year ending December 31,</b>	
2023	\$ 14,969
2024	\$ 13,289
2025	\$ (15,566)
2026	\$ 3,150

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.30%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 9.00% in 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement 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 actuarial assumption used in the June 30, 2022 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022.

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

**KNOTT COUNTY WATER AND SEWER DISTRICT  
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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
<b>Total</b>	<b>100.00%</b>	<b>4.28%</b>
<b>Long term inflation assumption</b>		<b>2.30%</b>
<b>Expected nominal return for portfolio</b>		<b>6.58%</b>

*Discount Rate* – The discount rate used to measure the total OPEB liability as of June 30, 2022, was 5.70%, for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2022, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index”. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

*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 as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<b>Discount rate</b>	<b>Proportionate share of net OPEB liability</b>
1% decrease	4.70%	\$ 583,692
Current discount rate	5.70%	\$ 436,620
1% increase	6.70%	\$ 315,041

*Sensitivity of the District’s Proportionate Share 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 healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>Proportionate share of net OPEB liability</b>
1% decrease	\$ 324,617
Current trend rate	\$ 436,620
1% increase	\$ 571,114

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued financial report.

**KNOTT COUNTY WATER AND SEWER DISTRICT**  
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**8. 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 disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

**9. CONSTRUCTION COMMITMENTS**

The District regularly engages in construction projects to expand water lines and access throughout its service area. The District generally applies for grant money to fund these projects. As of December 31, 2022 and 2021, the District had construction in progress of \$0 and \$1,724,165, respectively, related to various projects.

**10. FLOOD DAMAGES**

During the year ended December 31, 2022, the District incurred damage to various capital assets as a result of flood damage. Significant maintenance and supply expenses were incurred to repair the damaged assets and return them to their previous service capacity. The District has incurred expenses related to the flood loss of approximately \$1,005,000 as of December 31, 2022. The District received insurance proceeds in the amount of \$1,000,000 subsequent to year end for the reimbursement of flood losses. The insurance proceeds have been accrued as revenue as of December 31, 2022, as the flood and the related expenses occurred prior to December 31, 2022.

The District is also working with the Federal Emergency Management Agency (FEMA) to receive funds to cover additional flood response expenses. Management has elected not to accrue for any reimbursement from FEMA, as the amount and probability of the reimbursement is uncertain as of March 29, 2023.

**REQUIRED SUPPLEMENTARY INFORMATION**



**KNOTT COUNTY WATER AND SEWER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last Seven Years**

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<b>Reporting Year End</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>December 31, 2018</b>	<b>December 31, 2019</b>	<b>December 31, 2020</b>	<b>December 31, 2021</b>	<b>December 31, 2022</b>
<b>(Measurement Date)</b>	<b>(June 30, 2016)</b>	<b>(June 30, 2017)</b>	<b>(June 30, 2018)</b>	<b>(June 30, 2019)</b>	<b>(June 30, 2020)</b>	<b>(June 30, 2021)</b>	<b>(June 30, 2022)</b>
District's proportion of the net pension liability	0.01672%	0.01727%	0.01761%	0.01886%	0.01932%	0.02173%	0.02213%
District's proportionate share of the net pension liability (asset)	\$ 823,295	\$ 1,010,749	\$ 1,072,442	\$ 1,326,432	\$ 1,481,981	\$ 1,385,139	\$ 1,599,636
District's covered employee payroll	\$ 442,662	\$ 460,392	\$ 476,238	\$ 514,991	\$ 568,340	\$ 626,135	\$ 703,748
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	185.99%	219.54%	225.19%	257.56%	260.76%	221.22%	227.30%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	53.32%	53.54%	50.45%	47.81%	57.33%	52.42%

**Notes:**

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
CONTRIBUTIONS - PENSION  
Last Seven Calendar Years**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Contractually required employer contribution	\$ 60,741	\$ 63,249	\$ 77,086	\$ 92,829	\$ 111,460	\$ 127,901	\$ 163,462
Contributions relative to contractually required employer contribution	<u>60,741</u>	<u>63,249</u>	<u>77,086</u>	<u>92,829</u>	<u>111,460</u>	<u>127,901</u>	<u>163,462</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 435,595	\$ 447,451	\$ 504,764	\$ 530,184	\$ 614,689	\$ 660,471	\$ 759,994
Employer contributions as a percentage of covered-employee payroll	13.94%	14.14%	15.27%	17.51%	18.13%	19.37%	21.51%

Notes:

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
Last Seven Calendar Years**

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<b>Reporting Year End</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>December 31, 2018</b>	<b>December 31, 2019</b>	<b>December 31, 2020</b>	<b>December 31, 2021</b>	<b>December 31, 2022</b>
<b>(Measurement Date)</b>	<b>(June 30, 2016)</b>	<b>(June 30, 2017)</b>	<b>(June 30, 2018)</b>	<b>(June 30, 2019)</b>	<b>(June 30, 2020)</b>	<b>(June 30, 2021)</b>	<b>(June 30, 2022)</b>
District's proportion of the net OPEB liability	0.01727%	0.01727%	0.01761%	0.01886%	0.01932%	0.02173%	0.02213%
District's proportionate share of the net OPEB liability (asset)	\$ 272,291	\$ 347,146	\$ 312,627	\$ 317,149	\$ 466,447	\$ 415,799	\$ 436,620
District's covered employee payroll	\$ 442,662	\$ 460,392	\$ 476,238	\$ 514,991	\$ 568,340	\$ 626,135	\$ 703,748
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	61.51%	75.40%	65.65%	61.58%	82.07%	66.41%	62.04%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%	60.95%

**Notes:**

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
CONTRIBUTIONS - OPEB  
Last Seven Years**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Contractually required employer contribution	\$ 21,446	\$ 20,757	\$ 25,543	\$ 26,182	\$ 27,490	\$ 33,429	\$ 26,494
Contributions relative to contractually required employer contribution	<u>21,446</u>	<u>20,757</u>	<u>25,543</u>	<u>26,182</u>	<u>27,490</u>	<u>33,429</u>	<u>26,494</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 435,595	\$ 447,451	\$ 504,764	\$ 530,184	\$ 614,689	\$ 660,471	\$ 759,994
Employer contributions as a percentage of covered-employee payroll	4.92%	4.64%	5.06%	4.94%	4.47%	5.06%	3.49%

Notes:

The above schedule will present 10 years of historical data, once available.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2022 and 2021**

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**1. GENERAL INFORMATION**

**Contributions**

Contractually required employer contributions reported on the Schedule of Contributions - Pensions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of Contributions - OPEB.

**Payroll**

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Proportionate Share of the Net OPEB Liability is for the corresponding measurement date of the net liabilities and differs from the District's calendar year payroll as reported on the Schedule of Contributions for Pension and OPEB.

**2. CHANGES OF ASSUMPTIONS**

**December 31, 2022 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.30% to 6.2%. The initial healthcare trend rate for post-65 was changed from 6.30% to 9.00%.

**December 31, 2021 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

**December 31, 2020 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

**December 31, 2019 – Pension and OPEB**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

**December 31, 2018 – Pension and OPEB**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

**KNOTT COUNTY WATER AND SEWER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2022 and 2021**

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**2. CHANGES OF ASSUMPTIONS (CONTINUED)**

**December 31, 2017 – Pension**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

**December 31, 2016 – Pension and OPEB**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

**December 31, 2015 – Pension**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the 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.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

**December 31, 2014 – Pension**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

**December 31, 2013 – Pension**

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

**SUPPLEMENTARY INFORMATION**

**KNOTT COUNTY WATER AND SEWER DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
for the year ended December 31, 2022**

	Original Budget	Appropriated Budget	Actual Amount	Variance with Final Budget Favorable (Unfavorable)
<b>OPERATING INCOME</b>				
Water service	\$ 3,400,000	\$ 3,400,000	\$ 3,330,106	\$ (69,894)
Sewer service	-	-	111,367	111,367
Penalties	-	-	35,283	35,283
Insurance proceeds	-	-	1,000,000	1,000,000
Grant income	-	-	308,166	308,166
Miscellaneous income	75,000	75,000	8,395	(66,605)
Reconnection and collection fees	-	-	468	468
	<u>3,475,000</u>	<u>3,475,000</u>	<u>4,793,785</u>	<u>1,318,785</u>
Total operating income				
<b>OPERATING EXPENSES</b>				
Salaries and fringe benefits	1,007,000	1,007,000	1,248,440	(241,440)
Commissioners	30,200	30,200	23,000	7,200
Office and advertising expense	500	500	16,035	(15,535)
Water consumption	112,000	112,000	114,916	(2,916)
Electricity	560,000	560,000	628,418	(68,418)
Telephone	19,000	19,000	18,941	59
Travel and training	6,000	6,000	4,739	1,261
Rents	1,000	1,000	6,266	(5,266)
Contractual fees	282,500	282,500	367,105	(84,605)
Vehicle expense	60,000	60,000	104,447	(44,447)
Operating supplies and maintenance	472,000	472,000	1,300,763	(828,763)
Licenses, permits, dues, and fees	9,500	9,500	11,321	(1,821)
Insurance and bonds	66,000	66,000	67,940	(1,940)
	<u>2,625,700</u>	<u>2,625,700</u>	<u>3,912,331</u>	<u>(1,286,631)</u>
Total operating expense				
Operating income (loss) before depreciation	849,300	849,300	881,454	32,154
Depreciation expense	1,500,000	1,500,000	1,411,280	88,720
<b>OPERATING (LOSS)</b>	(650,700)	(650,700)	(529,826)	120,874
Non-operating income (expenses)				
Interest income	-	-	9,198	9,198
Gain on sale of assets	-	-	3,919	3,919
Interest expense	(8,000)	(8,000)	(10,350)	(2,350)
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(658,700)	(658,700)	(527,059)	131,641
Capital contributions				
Tap fees	-	-	22,746	22,746
Contributed capital	-	-	189,468	189,468
<b>CHANGE IN NET POSITION</b>	<u>\$ (658,700)</u>	<u>\$ (658,700)</u>	<u>\$ (314,845)</u>	<u>\$ 343,855</u>

Note 1: Adjustments to account for the changes in the net pension and net OPEB liabilities resulted in an increase in salaries and fringe benefits expense of \$106,250. Due to the uncertainty of the impact of the required net pension and OPEB liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension and OPEB liability.



**KNOTT COUNTY WATER AND SEWER DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
for the year ended December 31, 2021**

	<b>Original Budget</b>	<b>Appropriated Budget</b>	<b>Actual Amount</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
<b>OPERATING INCOME</b>				
Water service	\$ 3,175,000	\$ 3,175,000	\$ 3,195,913	\$ 20,913
Sewer service	-	-	101,921	101,921
Penalties	-	-	33,546	33,546
Miscellaneous income	75,000	75,000	4,693	(70,307)
Reconnection and collection fees	-	-	580	580
Total operating income	<u>3,250,000</u>	<u>3,250,000</u>	<u>3,336,653</u>	<u>86,653</u>
<b>OPERATING EXPENSES</b>				
Salaries and fringe benefits	910,000	910,000	1,128,818	(218,818)
Commissioners	30,200	30,200	30,200	-
Office and advertising expense	500	500	12,853	(12,353)
Water consumption	112,000	112,000	113,493	(1,493)
Electricity	450,000	450,000	529,544	(79,544)
Telephone	16,500	16,500	20,047	(3,547)
Travel and training	5,000	5,000	3,607	1,393
Rents	1,000	1,000	1,887	(887)
Contractual fees	263,500	263,500	263,336	164
Vehicle expense	45,000	45,000	68,736	(23,736)
Operating supplies and maintenance	473,900	473,900	415,597	58,303
Licenses, permits, dues, and fees	8,000	8,000	8,739	(739)
Insurance and bonds	62,500	62,500	63,521	(1,021)
Total operating expense	<u>2,378,100</u>	<u>2,378,100</u>	<u>2,660,378</u>	<u>(282,278)</u>
Operating income before depreciation	871,900	871,900	676,275	(195,625)
Depreciation expense	<u>1,408,000</u>	<u>1,408,000</u>	<u>1,405,592</u>	<u>2,408</u>
<b>OPERATING (LOSS)</b>	(536,100)	(536,100)	(729,317)	(193,217)
Non-operating income (expenses)				
Interest income	-	-	8,976	8,976
Refunds to customers	-	-	(32)	(32)
Interest expense	<u>(12,400)</u>	<u>(12,400)</u>	<u>(9,209)</u>	<u>3,191</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(548,500)	(548,500)	(729,582)	(181,082)
Capital contributions				
Tap fees	-	-	40,278	40,278
Contributed capital	<u>-</u>	<u>-</u>	<u>1,530,093</u>	<u>1,530,093</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (548,500)</u>	<u>\$ (548,500)</u>	<u>\$ 840,789</u>	<u>\$ 1,389,289</u>

Note 1: Adjustments to account for the changes in the net pension and net OPEB liabilities resulted in an increase in salaries and fringe benefits expense of \$117,580. Due to the uncertainty of the impact of the required net pension and OPEB liability adjustments on expense, an amount was not included in the enacted budget for the current year change in the net pension and OPEB liability.



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

Board of Commissioners  
Knott County Water and Sewer District  
Vicco, 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 Knott County Water and Sewer District (the District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Knott County Water and Sewer District's basic financial statements, and have issued our report thereon dated March 29, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-001, that we consider to be a material weakness.

**Report on Compliance and Other Matters**

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

## **Knott County Water and Sewer District's Response to Findings**

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

### **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.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
March 29, 2023

**KNOTT COUNTY WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2022**

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**FINDING:**

**2022-001 – Internal Control over Financial Reporting (Recurring)**

**Criteria:**

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

**Condition:**

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements.

**Cause:**

The District lacks personnel with the expertise to prepare its financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

**Effect:**

The auditor to prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

**Recommendation:**

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

**RESPONSE:**

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the financial statements.