

EAST CLARK COUNTY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

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SUMMERS, MCCRARY & SPARKS, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
East Clark County Water District
Winchester, KY

Opinions

We have audited the accompanying financial statements of the business-type activities of the East Clark County Water District, as of and for the years ended December 31, 2023 and December 31, 2022, and the related notes to the financial statements, which collectively comprise the East Clark County Water District's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the East Clark County Water District, as of December 31, 2023 and December 31, 2022, 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. 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 East Clark 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 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 East Clark County Water 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.

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 generally accepted 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, 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 East Clark 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 East Clark 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 on pages 4-6, budgetary comparison information on page 42, and schedules of proportionate of net pension liability and contributions and net OPEB liability and contributions on pages 35-41 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 and other auditors 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Clark County Water District's basic financial statements. The Statement of Revenue, Expenditures, and Changes in Net Position- Budget to Actual, Statement of Functional Expenses- 2023 and Statement of Functional Expenses – 2022 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 by us and other auditors. In our opinion, based on our audit and the report of the other auditors, the Statement of Revenue, Expenditures, and Changes in Net Position- Budget to Actual, Statement of Functional Expenses- 2023 and Statement of Functional Expenses – 2022 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 April 26, 2024, 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 to solely 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 East Clark County Water 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.

Summers, McCrary & Sparks, PSC

Winchester, KY

April 26, 2024

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2023 and 2022

East Clark County Water District (the District) is presenting the following discussion and analysis to provide an overall review of the District's financial activities for the fiscal years ending December 31, 2023, 2022, and 2021. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

2023 FINANCIAL HIGHLIGHTS

- The District's operating revenues and operating expenses remained consistent with the prior year.
- The District's total assets and deferred outflows of resources increased \$37,800 and total liabilities and deferred inflows of resources decreased \$103,828 from 2023 to 2022, resulting in an increase in total net position of \$141,628 or 1.8% from the prior year.
- Interest income for 2023 was \$40,059 which is an increase of \$31,368 over interest income in 2022.

GENERAL INFORMATION ABOUT EAST CLARK COUNTY WATER DISTRICT

The District recognized the need for a central water supply for the residents of the eastern section of Clark County, Kentucky early in its history. The District was organized in 1967 pursuant to Chapter 74 of the Kentucky Revised Statutes.

Management is vested in a five-member commission consisting of a chairman and four commissioners appointed by Clark County Fiscal Court.

The District relies on Winchester Municipal Utilities and Kentucky American Water Company for its water supply. Water is pumped to approximately 2600 customers through more than 197 miles of water mains. The Kentucky Public Service Commission (PSC) regulates the District in matters of rates, rules, and levels of service.

DISTRICT FINANCIAL ANALYSIS

The Statements of Net Position includes all the District's assets and liabilities and provides information about the nature and amounts of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District. A summary of the District's Statements of Net Position is presented below

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2023 AND 2022

Condensed Statements of Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 2,492,615	\$ 2,293,622	\$ 2,092,389
Capital Assets, net of depreciation	<u>7,071,377</u>	<u>7,243,691</u>	<u>7,519,458</u>
Total Assets	<u>9,563,992</u>	<u>9,537,313</u>	<u>9,611,847</u>
Deferred Outflows of resources	<u>341,540</u>	<u>347,561</u>	<u>314,783</u>
Debt outstanding	604,528	686,960	769,392
Other liabilities	<u>1,022,891</u>	<u>1,291,829</u>	<u>1,208,637</u>
Total liabilities	<u>1,627,419</u>	<u>1,978,789</u>	<u>1,978,029</u>
Deferred Inflows of resources	<u>485,278</u>	<u>237,736</u>	<u>258,331</u>
Investment in capital assets, net of depreciation	6,466,849	6,556,731	6,750,066
Restricted net assets	94,471	90,520	91,273
Unrestricted net assets	<u>1,248,657</u>	<u>1,021,098</u>	<u>848,931</u>
Total net position	\$ <u>7,809,977</u>	\$ <u>7,668,349</u>	\$ <u>7,690,270</u>

Net position increased \$141,628 from 2023 to 2022, an increase of 1.8%. Debt outstanding decreased \$82,432 or 12% from 2022.

Condensed Statements of Revenue, Expenditures, and Changes in Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 1,758,534	\$ 1,690,894	\$ 1,526,493
Non-operating revenues	<u>66,559</u>	<u>34,422</u>	<u>24,165</u>
Total revenues	<u>1,825,093</u>	<u>1,725,316</u>	<u>1,550,658</u>
Operating Expenses	1,336,928	1,395,674	1,345,395
Depreciation	378,743	378,393	374,951
Non-operating expense	<u>21,094</u>	<u>26,896</u>	<u>32,325</u>
Total expenses	<u>1,736,765</u>	<u>1,800,963</u>	<u>1,752,671</u>
Net income	88,328	(75,647)	(202,013)
Customer connection fees	<u>53,300</u>	<u>53,726</u>	<u>39,908</u>
Change in net position	141,628	(21,921)	(162,105)
Beginning net position	<u>7,668,349</u>	<u>7,690,270</u>	<u>7,852,375</u>
Ending net position	\$ <u>7,809,977</u>	\$ <u>7,668,349</u>	\$ <u>7,690,270</u>

In 2023, the District's operating revenue increased \$67,640 or 4.0% over 2022. Non-operating revenue consisted of interest income of \$40,050 and grant proceeds of \$26,500 for a total of \$66,559. The District's total 2023 revenue increased \$67,640 or 4.0% over 2022. In 2022, non-operating revenue consisted of interest income of \$8,681 and sale of scrap of \$25,731. In 2021, non-operating revenue consisted of interest income of \$24,165.

Operating expenses decreased \$58,396 or 3.29% from 2022 to 2023. The decrease was due to decreases in purchased water, employee compensation and benefits, and transmission/distribution supplies. The increase in depreciation between 2023 and 2022 was \$350 or 0.09%. Non-operating expense consisted solely of interest expense on debt of \$21,094, \$26,896, and \$32,325, for the three years 2023, 2022, and 2021, respectively.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2023 AND 2022

CAPITAL EXPENDITURES

	2023	2022	2021
Capital Assets	\$ 14,449,366	\$ 14,242,937	\$ 14,160,068
Accumulated depreciation	(7,377,989)	(6,999,246)	(6,640,611)
	\$ 7,071,377	\$ 7,243,691	\$ 7,519,458

In 2019, the District began a waterline extension project which was temporarily suspended in 2020 due to the coronavirus pandemic. The project was resumed in early 2023 when it was safe to contact landowners in the area. In 2023, the District began a clean water project. Acquisitions of equipment were financed from the District’s reserve funds in 2023, 2022 and 2021. Contributions to capital amounted to \$53,300 in 2023, \$53,726 in 2022 and \$39,908 in 2021 from new tap-on fees to existing lines.

BONDS AND CAPITAL LEASE OBLIGATIONS

	2023	2022	2021
Bonds	\$ 595,000	\$ 675,000	\$ 755,000
Premium/(Discount)	9,528	11,960	14,392
Total	\$ 604,528	\$ 686,960	\$ 769,392

The District made all its scheduled debt payments during 2023, 2022 and 2021.

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

The District continued to experience new growth from new meter installations on existing waterlines during 2023. The growth is attributed to new housing starts in Clark County and is expected to continue in 2024.

The District purchases water from Winchester Municipal Utilities and Kentucky American Water Company for distribution to District customers. Water rate increases by these supplies are passed on to District customers as they occur.

Due to the increases in transmission costs and other operating expenses the District has operated at a loss for the past several years. The District petitioned the Kentucky Public Service Commission and was granted a rate increase in 2022.

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the utility’s finances and to demonstrate the utility’s accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact East Clark County Water District, 118 Hopkins Street, Winchester, KY 40392 or by phone at (859) 745-1458 or by email at wdballard@bellsouth.net.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 571,811	\$ 825,748
Investments	1,543,032	1,120,996
Receivables:		
Customer accounts	129,389	127,014
Unbilled	52,210	46,628
Accrued interest	22,985	5,203
Inventory, at cost	58,270	58,803
Prepaid expenses	20,447	18,710
	<u>2,398,144</u>	<u>2,203,102</u>
 Total current assets	 <u>2,398,144</u>	 <u>2,203,102</u>
Restricted assets:		
Cash and cash equivalents	94,471	90,520
	<u>94,471</u>	<u>90,520</u>
 Total restricted assets	 <u>94,471</u>	 <u>90,520</u>
Capital assets:		
Property, plant and equipment, net of depreciation	6,865,046	7,053,423
Construction in progress	116,287	100,224
Land	90,044	90,044
	<u>6,865,046</u>	<u>7,053,423</u>
 Total capital assets	 <u>6,865,046</u>	 <u>7,053,423</u>
Other noncurrent assets:		
Net OPEB asset	17,142	-
	<u>17,142</u>	<u>-</u>
 Total other noncurrent assets	 <u>17,142</u>	 <u>-</u>
 Total assets	 <u>9,581,134</u>	 <u>9,537,313</u>
Deferred outflows of resources	<u>341,540</u>	<u>347,561</u>
 Total assets and deferred outflows of resources	 <u>\$ 9,922,674</u>	 <u>\$ 9,884,874</u>

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT
 STATEMENTS OF NET POSITION (CONTINUED)
 DECEMBER 31, 2023 AND 2022

LIABILITIES AND NET POSITION

	<u>2023</u>	<u>2022</u>
Current liabilities:		
Accounts payable, trade	\$ 8,644	\$ 5,480
Accrued compensated absences	20,410	18,205
Accrued interest payable	9,741	12,591
Accrued liabilities	42,735	34,102
Refundable customer deposits	144,687	136,053
Revenue bonds - current portion	<u>80,000</u>	<u>80,000</u>
Total current liabilities	<u>306,217</u>	<u>286,431</u>
Long-term liabilities:		
Revenue bonds net of current portion	524,528	606,960
Net OPEB liability	-	232,736
Net pension liability	<u>796,674</u>	<u>852,662</u>
Total long-term liabilities	<u>1,321,202</u>	<u>1,692,358</u>
Total liabilities	<u>1,627,419</u>	<u>1,978,789</u>
Deferred inflows of resources	<u>485,278</u>	<u>237,736</u>
Net Position		
Net Investment in capital assets	6,466,849	6,556,731
Restricted:		
Restricted for debt retirement	94,471	90,520
Unrestricted	<u>1,248,657</u>	<u>1,021,098</u>
Total net position	<u>7,809,977</u>	<u>7,668,349</u>
Total liabilities, net position and deferred inflows of resources	<u><u>\$ 9,922,674</u></u>	<u><u>\$ 9,884,874</u></u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Operating revenues		
Water sales	\$ 1,716,969	\$ 1,641,019
Other operating income	41,565	49,875
	<hr/>	<hr/>
Total operating revenues	1,758,534	1,690,894
	<hr/>	<hr/>
Operating expenses		
Transmission, distribution and services	561,928	583,962
Purchased water	397,069	409,899
General and administrative	377,931	401,813
Depreciation	378,743	378,393
	<hr/>	<hr/>
Total operating expenses	1,715,671	1,774,067
	<hr/>	<hr/>
Operating income	42,863	(83,173)
	<hr/>	<hr/>
Non-operating revenues (expenses):		
Customer connection fees	53,300	53,726
Interest income	40,059	8,691
Non-operating revenue	26,500	-
Gain on disposal of assets	-	25,731
Interest expense	(21,094)	(26,896)
	<hr/>	<hr/>
Total non-operating revenues (expenses)	98,765	61,252
	<hr/>	<hr/>
Change in net position	141,628	(21,921)
	<hr/>	<hr/>
Net position at the beginning of the year	7,668,349	7,690,270
	<hr/>	<hr/>
Net position at the end of the year	<u>\$ 7,809,977</u>	<u>\$ 7,668,349</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,709,012	\$ 1,634,877
Cash payments to suppliers for goods and services	(808,698)	799,626
Cash payments to employees and professional contractors for services	<u>(550,593)</u>	<u>(579,780)</u>
Net cash provided by operating activities	<u>379,247</u>	<u>310,732</u>
Cash flows from capital and related financing activities:		
Principal payments on bonds and lease obligations	(82,432)	(82,432)
Interest payments on bonds and lease obligations	(21,094)	(26,896)
Purchase of fixed assets	(206,388)	(107,657)
Sale of fixed assets		30,762
Customer connection fees	<u>53,300</u>	<u>53,726</u>
Net cash used by capital and related financing activities	<u>(256,614)</u>	<u>(132,497)</u>
Cash flows from investing activities:		
Non-operating revenue	26,500	-
Sale (acquisition) of unrestricted investments	(422,036)	(5,600)
Interest received on cash deposits and investments	<u>40,059</u>	<u>8,691</u>
Net cash provided by investing activities	<u>(355,477)</u>	<u>3,091</u>
Increase (decrease) in cash and cash equivalents	(232,844)	181,326

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Increase (decrease) in cash and cash equivalents (from page 12)	(249,986)	181,326
Cash and cash equivalents at the beginning of the year	<u>916,268</u>	<u>734,942</u>
Cash and cash equivalents at the end of the year	<u>\$ 666,282</u>	<u>\$ 916,268</u>
Reconciliation of cash and cash equivalents at the end of the year		
Unrestricted cash and cash equivalents	\$ 571,811	\$ 825,748
Restricted cash and cash equivalents	<u>94,471</u>	<u>90,520</u>
Total cash and cash equivalents at the end of the year	<u>\$ 666,282</u>	<u>\$ 916,268</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 42,863	\$ (83,173)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	378,743	378,393
(Increase) decrease in:		
Customer accounts receivable	(1,746)	(5,574)
Unbilled receivable	(6,211)	(568)
Interest receivable	(17,782)	(2,844)
Inventory	533	(4,294)
Prepaid expenses	(1,737)	(1,027)
Changes in deferred outflows of resources	6,021	(32,778)
Increase (decrease) in:		
Accounts payable, trade accounts	3,123	(11,028)
Accrued liabilities	8,633	11,028
Accrued interest payable	(2,850)	(819)
Accrued compensated absences	2,205	(7,462)
Changes in net pension liability	(55,988)	81,320
Changes in net OPEB liability	(232,736)	1,183
Changes in deferred inflows of resources	247,542	(20,595)
Customer deposits	<u>8,634</u>	<u>9,049</u>
Net cash provided by operating activities	<u>\$ 379,247</u>	<u>\$ 310,732</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Clark County Water District is a "Class B" water district located in Clark County, Kentucky, with principal offices located at 118 Hopkins Lane, Winchester, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a five-member commission consisting of a chairman and four commissioners, all appointed by Clark County Fiscal Court. Water is purchased from Winchester Municipal Utilities and Kentucky American Water Company and resold to approximately 2,600 residential and commercial customers.

Basis of Accounting and Measurement Focus

The District is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the public on a continuing basis are financed primarily through user charges.

The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water to customers in connection with the District's ongoing operations. The principal operating revenues are charges to customers for water sales and services. Operating expenses include the cost of purchased water and other related service expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues and expenses generally result from contracts with other entities to move existing water lines as required by road and railroad maintenance and improvements.

Property and Equipment

The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2023 and 2022.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets. Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

Lines and storage	50 years
Building	30 years
Pumps and treatment equipment	20 years
Maintenance equipment and vehicles	3-10 years
Office furniture and equipment	3-5 years

Capital Grants and Subsidies

The purchase of property and equipment acquired by grants and subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as non-operating revenue. These grants and subsidies are not subject to repayment. Certain plant assets have been contributed by customers. These contributions are not subject to repayment.

Receivables

All receivables are reported at their gross value. Estimated un-billed revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. No allowance for doubtful accounts is provided. The District identifies and writes off uncollectible accounts as they occur. Amounts written off as of December 31, 2023 and 2022 were \$2,199 and \$2,275, respectively.

Vacation, Sick Leave, and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Paid vacation time accrues at the rate of one to three weeks based on the length of employment. Unused vacation time may be carried forward from one year to the next with certain limitations. Other compensated absences do not vest and are recorded as expenditures when they are paid.

Pensions

GASB Statement No. 68 requires recognition of the employer's (the District) obligation for the net long-term pension liabilities, deferred inflows of resources, deferred outflows of resources, and pension expense associated with both the cost-sharing and single-employer plans offered to District employees. Statement No. 68 also prescribes the accounting and reporting requirements for measuring and reporting these liabilities. The District reports its proportionate share of the collective balances and information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position, based on an analysis prepared by Kentucky Public Pensions Authority ("KPPA"), the CERS cost-sharing plan administrator.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions (Continued)

More information about these plans and the related balances is provided in Note 7 – Pension. KPPA publishes a CAFR that includes the CERS plans which is available on their website at <https://www.kyret.ky.gov/Publications/Books/2023%20Annual%20Report.pdf>

Other Postemployment Benefits (OPEB)

Beginning in fiscal year 2018, the District implemented GASB Statement No. 75, which requires recognition of the employer’s (the District) obligation for the net long-term OPEB liabilities, deferred inflows of resources, deferred outflows of resources, and OPEB expense associated with both the cost-sharing and single-employer plans offered to District employees. The District reports its proportionate share of the collective balances for the cost-sharing plan and information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (“CERS”) and additions to/deductions from fiduciary net position, based on an analysis prepared by Kentucky Public Pensions Authority, the CERS cost-sharing plan administrator. More information about these plans and the related balances is provided in Note 8—Other Postemployment Benefit Plans. CERS OPEB plans are included in the KPPA CAFR published on their website at <https://www.kyret.ky.gov/Publications/Books/2023%20Annual%20Report.pdf> The GASB 68 and 75 actuary reports are available at <https://kyret.ky.gov/Employers/GASB/Pages/default.aspx>.

Cash and Cash Equivalents

The District includes in cash and cash equivalents, cash on hand and unrestricted cash in checking, money market accounts, federated treasury obligation funds, and unrestricted certificates of deposit with maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market value on a first-in, first-out basis.

Investments

Investments consist of certificates of deposits with maturity dates of three months or more. Management believes the face value of the certificates approximates their market value. Certificates of deposit in excess of FDIC insurance are collateralized by securities held by the pledging institution.

Interest

Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2023 and 2022.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

The Statement of Net Position includes a separate section for Deferred Outflows of Resources. This represents the usage of net position applicable to future periods and will be recognized as expenditures in the future period to which it applies. This category includes amounts related to pensions and other post-employment benefits (OPEB) for certain actuarially determined differences between projected and actual investment earnings and/or other differences between projected and actual demographic experience, as well as contributions made by the District subsequent to the measurement date.

The Statement of Net Position includes a separate section for Deferred Inflows of Resources. This represents the acquisition of net position applicable to future periods and will be recognized as revenue in the future period to which it applies. This category includes amounts related to pensions and OPEB for certain actuarially determined differences between projected and actual demographic experience and/or projected and actual investment earnings.

Net Position Classifications

The District records restrictions for portions of its net position which are legally segregated for specific future use, or which do not represent available spendable resources and therefore are not available for appropriation. Unrestricted portions of net position indicate amounts which are available for appropriation in future periods. Restrictions in net position are classified as follows:

- **Net Investment in Capital Assets** includes the District's capital assets, (net of accumulated depreciation) reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The net investment in capital assets also reflects any related balances in deferred outflows or inflows of resources.
- **Restricted for Debt Service** includes assets that have been set aside as required by statute or bond covenant for the future payment of the District's Debt.

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.

Recent Pronouncements

The District has implemented the following new accounting pronouncements:

GASB Statement No. 94-In March 2020 the GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The District implemented this standard in the current. There was no material effect to the financial statements.

GASB Statement No. 96-In May 2020 the GASB issued Statement No.96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The District implemented this standard in the current. There was no material effect to the financial statements.

The District is currently evaluating the potential impact of the following issued, but not yet effective, accounting standards.

GASB Statement No. 99-In April 2022 the GASB issued Statement No.99, Omnibus 2023. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The Statement is effective on various dates, but no later than reporting periods beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100-In June 2022 the GASB issued Statement No.100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The Statement is effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 101-In June 2022 the GASB issued Statement No.101, Compensated Absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS

The District investment policies conform to state statutes. The District deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities of one year with banks. Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky Revenue Bonds. The District’s deposits and investments are collateralized with securities held by the bank’s trust department in the District’s name or letter of credit held by a third party in the District’s name. As of December 31, 2023 the District’s funds held with two financial institution were underinsured by \$162,148, collectively.

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the District’s deposits and/or investments may not be returned to it. The District’s policy on custodial credit risk requires banks to pledge additional bank assets as collateral on District’s deposits that exceed FDIC insurance.

As of December 31, 2023, and 2022, District’s total deposits at banks of \$2,159,627 and \$2,037,263 respectively, were exposed to custodial credit risk as follows:

	2023	2022
Insured by FDIC coverage	\$ 500,000	\$ 500,000
Insured by collateral held by a third party in the District's name	1,000,000	800,000
Insured by collateral held by the bank's trust department in the District's name	497,479	995,188
	\$ 1,997,479	\$ 2,295,118

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District’s fair value measurements are all based upon Level 1 inputs.

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

The Bond Resolutions require the creation of various separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions follows:

Bond and Interest Sinking Funds

The Bond and Interest Sinking Funds were established to provide sources of funds for the payment of bond principal and interest, currently due. Each month funds equal to the total of (1) one-sixth of the next succeeding semiannual interest payment plus (2) one-twelfth of the next annual bond principal payments are to be transferred to the funds. For the years ended December 31, 2023 and 2022 the required Sinking Fund Reserve balances were \$108,648 and \$103,009, respectively.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Activity for plant and equipment, which is capitalized by the District for the year ended December 31, 2023 and 2022, is summarized below:

2023:	Beginning Balance	Additions	Retirements	Ending Balance
Non depreciable assets:				
Land	\$ 90,044	\$ -	\$ -	\$ 90,044
Construction in Progress	100,224	16,063	-	116,287
Total non-depreciable assets	<u>190,268</u>	<u>16,063</u>	<u>-</u>	<u>206,331</u>
Depreciable assets:				
Buildings & improvements	593,687	39,247	-	632,934
Pumps	98,539	-	-	98,539
Lines & storage	11,419,344	-	-	11,419,344
Meters	1,258,336	52,021	-	1,310,357
Office equipment	90,209	-	-	90,209
Vehicles	270,371	99,098	-	369,469
Maintenance equipment	322,177	-	-	322,177
Total depreciable assets	<u>14,052,663</u>	<u>190,366</u>	<u>-</u>	<u>14,243,029</u>
Less accumulated depreciation				
Buildings & improvements	308,135	21,755	-	329,890
Pumps	84,117	2,841	-	86,958
Lines & storage	5,371,384	256,667	-	5,628,051
Meters	766,217	54,284	-	820,501
Office equipment	57,498	5,401	-	62,899
Vehicles	167,249	20,984	-	188,233
Maintenance equipment	244,640	16,811	-	261,451
Total accumulated depreciation	<u>6,999,240</u>	<u>378,743</u>	<u>-</u>	<u>7,377,983</u>
Depreciable assets, net	<u>7,053,423</u>	<u>(188,377)</u>	<u>-</u>	<u>6,865,046</u>
Total capital assets, net of depreciation	<u>\$ 7,243,691</u>	<u>\$ (172,313)</u>	<u>\$ -</u>	<u>\$ 7,071,377</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

2022:	Beginning Balance	Additions	Retirements	Ending Balance
Non depreciable assets:				
Land	\$ 90,044	\$ -	\$ -	\$ 90,044
Construction in Progress	76,374	23,850	-	100,224
Total non-depreciable assets	<u>166,418</u>	<u>23,850</u>	<u>-</u>	<u>190,268</u>
Depreciable assets:				
Buildings & improvements	585,727	7,960	-	593,687
Pumps	98,539	-	-	98,539
Lines & storage	11,419,344	-	-	11,419,344
Meters	1,204,610	53,726	-	1,258,336
Office equipment	90,209	-	-	90,209
Vehicles	271,381	14,990	16,000	270,371
Maintenance equipment	323,840	7,127	8,790	322,177
Total depreciable assets	<u>13,993,650</u>	<u>83,803</u>	<u>24,790</u>	<u>14,052,663</u>
Less accumulated depreciation				
Buildings & improvements	286,380	21,755	-	308,135
Pumps	81,276	2,841	-	84,117
Lines & storage	5,116,831	254,553	-	5,371,384
Meters	712,608	53,609	-	766,217
Office equipment	51,600	5,898	-	57,498
Vehicles	157,123	22,926	12,800	167,249
Maintenance equipment	234,792	16,811	6,963	244,640
Total accumulated depreciation	<u>6,640,610</u>	<u>378,393</u>	<u>19,763</u>	<u>6,999,240</u>
Depreciable assets, net	<u>7,353,040</u>	<u>(294,590)</u>	<u>5,027</u>	<u>7,053,423</u>
Total capital assets, net of depreciation	<u>\$ 7,519,458</u>	<u>\$ (270,740)</u>	<u>\$ 5,027</u>	<u>\$ 7,243,691</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 5 – LONG TERM DEBT AND LEASES

The District issues revenue bonds to finance improvements and extensions to water lines. During 2023 and 2022 the District issued no new revenue bonds.

At December 31, 2023 and 2022, East Clark County Water District had the following long-term debt and leases outstanding:

2023 Bonds:

Description	Beginning Balance	New Issue	Principal Payment	Ending Balance	Due Within One Year
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable 1/1 and 7/1	\$ 365,000	\$ -	\$ 40,000	\$ 325,000	\$ 40,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2011C Bonds, with interest of 2.15% to 4.275% payable 1/1 and 7/1	280,000	-	25,000	255,000	30,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2013C Bonds, with interest of 2.3% to 4.8% payable 1/1 and 7/1	30,000	-	15,000	15,000	15,000
Bond Premiums	11,960	-	2,432	9,528	-
	<u>\$ 686,960</u>	<u>\$ -</u>	<u>\$ 82,432</u>	<u>\$ 604,528</u>	<u>\$ 85,000</u>

2022 Bonds:

Description	Beginning Balance	New Issue	Principal Payment	Ending Balance	Due Within One Year
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable 1/1 and 7/1	\$ 405,000	\$ -	\$ 40,000	\$ 365,000	\$ 40,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2011C Bonds, with interest of 2.15% to 4.275% payable 1/1 and 7/1	305,000	-	25,000	280,000	35,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2013C Bonds, with interest of 2.3% to 4.8% payable 1/1 and 7/1	45,000	-	15,000	30,000	15,000
Bond Premiums	14,392	-	2,432	11,960	-
	<u>\$ 769,392</u>	<u>\$ -</u>	<u>\$ 82,432</u>	<u>\$ 686,960</u>	<u>\$ 80,000</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 6 – INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and customers; or acts of God. The District insures against these risks through insurance policies obtained from commercial vendors. The District has pooled its risk for worker's compensation insurance. The District pays an annual premium for insurance coverage and is liable for additional premium assessments as determined by the pool. At December 31, 2023 and 2022, no additional premium assessment had been made. Other insurable risks are covered by policies with conventional insurance companies.

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS)

Plan Description

CERS was established by Kentucky Revised Statute 78.520. The CERS system is comprised of two plans - CERS Nonhazardous plan and CERS Hazardous plan. The CERS Nonhazardous plan was established to provide retirement benefits to all regular full-time members employed in positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. The membership of the CERS Hazardous plan includes employees whose position is considered hazardous with principal job duties including, but are not limited to, active law enforcement, probation and parole officers, detectives, pilots, paramedics, and emergency medical technicians, with duties that require frequent exposure to a high degree of danger and also require a high degree of physical condition.

The responsibility for the general administration and operation of the plans within CERS is vested in the CERS Board of Trustees. The CERS Board of Trustees consists of 9 members. Six trustees are appointed by the governor and three are elected by CERS members (active, inactive, and/or retired). The six appointed trustees are selected from a list of candidates provided to the Governor's Office by one of three employer advocacy groups: Kentucky League of Cities, Kentucky Association of Counties, or Kentucky School Board Association. Of the six appointed trustees, three must have investment experience and three must have retirement experience as defined by statute. All appointments by the governor are subject to Senate confirmation.

The Kentucky Public Pensions Authority issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <https://kyret.ky.gov/publications/pages/default.aspx>.

Benefits Provided

CERS provides pension, health insurance, death, and disability benefits to Plan employees or beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes employees are grouped into three tiers based on hire date. The following table summarizes retirement eligibility for Plan employees:

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (Continued)

Retirement Eligibility for Nonhazardous Employees

Age	Years of Service	Allowance Reduction
Tier 1 Members Whose Participation Began Before 9/1/2008		
65	1 month	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

Tier 2 Members Whose Participation Began On or After 9/1/2008 but before 1/1/2014

65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for next five years before age 65 or Rule of 87 (age plus years of service)

Tier 3 Members Whose Participation Began On or After 1/1/2014

65	5	None
57	Rule of 87	None

Retirement Eligibility for Hazardous Employees

Age	Years of Service	Allowance Reduction
Tier 1 Members Whose Participation Began Before 9/1/2008		
55	1 month	None
Any	20	None
50	15	6.5% per year for first five years, and 4.5% for next five years before age 55 or 20 years of service.
Tier 2 Members Whose Participation Began On or After 9/1/2008 but before 1/1/2014		
60	5	None
Any	25	None
50	15	6.5% per year for first five years, and 4.5% for next five years before age 60 or 25 years of service.
Tier 3 Members Whose Participation Began On or After 1/1/2014		
60	5	None
Any	25	None

Cost of Living Adjustments (COLAs)

SB 2 passed during the 2013 legislative session, eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (i) the system is over 100% funded or (ii) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (Continued)

Pre-Retirement Death Benefits

The beneficiary, which shall be the spouse unless another person was named beneficiary after the date of marriage, of a deceased active member is eligible for a monthly benefit if the member died while in the line of duty, or a duty-related injury, with one month of service credit. The beneficiary of a deceased active member who did not die in the line of duty, or a duty-related injury, is eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 65 for Nonhazardous members and under age 55 for Hazardous members with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump-sum payment of the member's accumulated account balance.

Insurance Benefits

For members participating prior to July 1, 2003, CERS, KERS, and SPRS pay a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008, are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of Nonhazardous and \$15 for each year of Hazardous earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Benefit Changes since the Prior Valuation

SB 27 allows part-time adjunct instructors for the Kentucky Fire Commission, meeting specific conditions, to retire from CERS without terminating employment as part-time instructors.

Employer Contributions

Local government participating employers are required to contribute an actuarially determined rate for CERS pension contributions, per the Kentucky Revised Statute Section 78.635. The CERS Board of Trustees establishes the employer contribution rate based on Kentucky Revised Statute section 78.454(33) each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year for local governments in Kentucky.

For the fiscal year ended June 30, 2023, participating employers of CERS Nonhazardous and Hazardous contributed a percentage of each employee's creditable compensation. The actuarially determined rates set by the Boards for the fiscal year is a percentage of each employee's creditable compensation. Administrative costs of KPPA are financed through employer contributions and investment earnings. See the chart below for the fiscal year employer contribution rates, including the actuarially recommended rates.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (Continued)

Contribution Rate Breakdown by Fund as of June 30, 2023

<u>Fund</u>	<u>Employer Contribution Rates</u>	<u>Actuarially Recommended Rates</u>
CERS Nonhazardous**	23.40%	23.40%
CERS Hazardous**	42.81%	42.81%

***House Bill 362 passed during the 2018 legislative session caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028.*

Employee Contributions

Employees’ required contributions are dependent upon the same tier system as outlined in the Benefits Provided section.

Tier 1:

Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5% (Nonhazardous) or 8% (Hazardous) of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members’ accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

Tier 2:

Tier 2 plan members, who began participating on or after September 1, 2008, and before January 1, 2014, are required to contribute 6% (Nonhazardous) or 9% (Hazardous) of their annual creditable compensation. Further, 1% of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund (see Kentucky Administrative Regulation (KAR) 105 KAR 1:420). These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members’ accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% Health Insurance Contribution (HIC) to the 401(h) account is non-refundable and is forfeited.

Tier 3:

Tier 3 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 contribute 5% (Nonhazardous) or 8% (Hazardous) of their monthly creditable compensation which is deposited into their account, and an additional 1% which is deposited to an account created for payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund (see 105 KAR1:420), which is not refundable. Tier 3 member accounts are also credited with an employer pay credit in the amount of 4% (Non-Hazardous) or 7.5% (Hazardous) of the member’s monthly creditable compensation. The employer pay credit amount is deducted from the total employer contribution rate paid on the member’s monthly creditable compensation. If a vested (60 months of service) member terminates employment and applies to take a refund, the member is entitled to the members contributions (less HIC) plus employer pay credit plus interest (for both employee contributions and employer pay). If a non-vested (less than 60 months) member terminates employment and applies to take a refund, the member is entitled to receive employee contributions (less HIC) plus interest (on employee contributions only).

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (Continued)

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

On December 31, 2023 the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability for the Plan year ended June 30, 2023

The total pension liability, net pension liability, and sensitivity information are based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled forward from the valuation date to the Plans’ fiscal year ended June 30, 2023, using generally accepted actuarial principles.

The District’s proportion of the net pension liability for CERS was determined using the employers’ actual contributions for the fiscal year ending June 30, 2023. This method is expected to be reflective of the employers’ long-term contribution effort as well as be transparent to individual employers and their external auditors. At December 31, 2023, the District’s proportion was 0.012416% of the nonhazardous plan. For the year ended December 31, 2023, the District recognized a decrease in pension expense of \$16,089 for nonhazardous members in CERS. On December 31, 2023, District reported deferred outflows and inflows of resources related to pensions from the following sources:

CERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	41,242	2,165
Changes of assumptions	-	73,016
Net difference between projected and actual earnings on pension plan investments	86,063	96,930
Changes in proportion and differences between District’s contributions and proportionate share of contributions	28,177	5,858
District’s contributions subsequent to the measurement date	80,259	-
Totals	235,742	177,969

\$80,259 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date for the 2023 plan year will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year Ended 12/31</u>	<u>Amortization of Pension Deferred Outflows (Inflows) of Resources</u>
2024	(15,173)
2025	(17,386)
2026	17,785
2027	(7,713)
2028	-
Thereafter	-
	(22,486)

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (Continued)

Actuarial Assumptions

KPPA’s actuary, Gabriel, Roeder, Smith & Co. (GRS), completed the actuarial valuation for the calculation of the employer contribution rates for the CERS, KERS, SPRS and Insurance Fund for the period ended June 30, 2023. The last experience study for the five-year period ended June 30, 2018, was completed prior to the June 2019 valuation. At that time, the actuary made changes to the actuarial assumptions used in the annual valuation. For example, one of the more significant changes was to the mortality assumption rate, which presumes improvement in life expectancy. The 2022 valuation utilized the same assumptions, the only change being an increase in the investment rate of return increasing to 6.50% from 6.25%. Based on the June 30, 2020, actuarial valuation report, the actuarial methods and assumptions used to calculate these contributions rates are:

- Investment Return - 6.50% for CERS Nonhazardous, and CERS Hazardous, KERS Hazardous, 5.25% for KERS Nonhazardous and SPRS.
- Inflation - 2.50% for all plans.
- Salary Increases - 3.30% to 10.30% for CERS Nonhazardous, 3.55% to 19.05% for CERS Hazardous, 3.30% to 15.30% for KERS Nonhazardous, 3.55% to 20.05% for KERS Hazardous, and 3.55% to 16.05% for SPRS, varies by service.
- Payroll Growth - 2% for CERS Nonhazardous and Hazardous, 0% for KERS Nonhazardous and Hazardous, and SPRS.
- 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.

Target Asset Allocation

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 return were 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 tables on the following page.

Target Asset Allocation - CERS Pension and Insurance as of June 30, 2023

Allocations apply to All Pension and Insurance Funds maintained by CERS

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income		
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected		
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (Continued)

Discount Rate

A single discount rate of 6.50% was used for the CERS Nonhazardous pension plan, and the CERS Hazardous pension plan to measure the total pension liability for the fiscal year ending June 30, 2023. These single discount rates were based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan’s fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. Except where noted below, future contributions are projected assuming that the entire actuarially determined employer contribution is received by each plan each future year, calculated in accordance with the current funding policy. The assumed future employer contributions for the CERS plans 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the District calculated using the discount rates selected by the pension system, as well as what the District’s net pension 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:

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
5.50%	6.50%	7.50%
\$1,005,849	\$796,674	\$622,841

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

GASB standards require the separation of healthcare benefits (OPEB) provided to retirees from the service-related pension benefits if these benefits are provided in conjunction with a defined benefit plan. As we noted in Note 1 — Summary of Significant Accounting Policies, GASB Statement No. 75 required the District to recognize their proportionate share of the collective net OPEB liability for the CERS cost-sharing plan for the fiscal year ended June 30, 2023.

Plan Description

The Insurance Fund was established by Kentucky Revised Statute 61.701 for the purpose of providing hospital and medical insurance benefits for eligible members receiving benefits from CERS Nonhazardous and CERS Hazardous (the Insurance Fund). The responsibility for the general administration and operation of the Insurance Fund is vested with the CERS Board of Trustees. Each of the OPEB funds: CERS Nonhazardous and CERS Hazardous is legally separated with benefits only eligibility to be paid for each of the respective membership groups.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Benefits Provided

The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The KPPA Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. KPPA submits the premium payments to DEI and Humana. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2023, insurance premiums withheld from benefit payments for KPPA’s members were \$23.7 million and \$4 million for CERS Nonhazardous and Hazardous, respectively.

The amount of benefit paid by the Insurance Fund is based on years of service. For members who began participating prior to July 1, 2003, a percentage of the contribution rate is paid based on years of service with 100% of the contribution rate being paid with 20 years of service. Since the passage of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits have been calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of 10 years, Nonhazardous employees whose participation began on or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a Hazardous employee, the employee’s spouse receives \$10 per month for insurance benefits for each year of the deceased employee’s earned Hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. House Bill 1 (2008 Kentucky General Assembly) changed the minimum vesting requirement for participation in the health insurance plan to 15 years for members whose participation began on or after September 1, 2008. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statutes 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. The Insurance Plan pays 100% of the contribution rate for hospital and medical insurance premiums for the spouse and dependents of members who die as a direct result of an act in the line of duty or from a duty-related injury. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum benefit are as follows:

<u>Portion Paid by Insurance Fund as of June 30, 2023</u>	
<u>Years of Service</u>	<u>Paid by Insurance Fund (%)</u>
20+ years	100.00%
15-19 years	75.00%
10-14 years	50.00%
4-9 years	25.00%
Less than 4 years	0.00%

The amount of benefit paid by the Insurance Fund is based on years of service. For members participating on or after July 1, 2003, the dollar amounts of the benefit per year of service are as follows:

<u>Dollar Contribution for Fiscal Year 2023 For Member participation dates on or after July 1, 2003</u>	<u>(in Whole \$)</u>
CERS Nonhazardous	\$14
CERS Hazardous	\$21

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Benefit Changes since the Prior Valuation

SB 209 increases the non-Medicare eligible subsidy by \$5 for each year worked beyond the defined career threshold for members eligible for the fixed-dollar retiree health subsidy. The annual increase will only occur if the most recent actuarial valuation determines the funding level of the retiree health benefits is at least 90% and will remain at that level for the year. Additionally, the bill allows members eligible for the fixed-dollar health subsidy to be reimbursed for health insurance premiums other than those administered by KPPA.

Employer Contributions

Local government participating employers are required to contribute an actuarially determined rate for CERS insurance fund contributions. The CERS Board of Trustees establishes the employer contribution rate based on Kentucky Revised Statute section 78.454(33) each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year for local governments in Kentucky.

For the fiscal year ended June 30, 2023, participating employers of CERS Nonhazardous and Hazardous contributed a percentage of each employee’s creditable compensation. The actuarially determined rates set by the Boards for the fiscal year is a percentage of each employee’s creditable compensation. Administrative costs of KPPA are financed through employer contributions and investment earnings. See the chart below for the fiscal year employer contribution rates, including the actuarially recommended rates.

<u>Contribution Rate Breakdown by Fund as of June 30, 2023</u>		
<u>Insurance</u>		
Fund	Employer Contribution Rates	Actuarially Recommended Rates
CERS Nonhazardous**	3.39%	3.39%
CERS Hazardous**	6.78%	6.78%

***House Bill 362 passed during the 2018 legislative session caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028.*

Employee Contributions

Employees’ required contributions are dependent upon the same tier system as outlined in the Benefits Provided section of Note 12.

Tier 1:

Tier 1 plan members who began participating prior to September 1, 2008, are not required to contribute a portion of their annual creditable compensation to the Insurance Fund.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Tier 2:

Tier 2 plan members, who began participating on or after September 1, 2008, and before January 1, 2014, are required to contribute 6% (Nonhazardous) or 9% (Hazardous) of their annual creditable compensation. 1% of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund (see Kentucky Administrative Regulation (KAR) 105 KAR 1:420). These members are classified in the Tier 2 structure of benefits. The 1% Health Insurance Contribution (HIC) to the 401(h) account is non-refundable and is forfeited.

Tier 3:

Tier 3 plan members, who began participating on or after January 1, 2014, are required to contribute 1% of their monthly creditable compensation to an account created for payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund (see 105 KAR1:420), which is not refundable.

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

At December 31, 2023, the District reported a liability for its proportionate share of the net OPEB liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability for the Plan year ended June 30, 2023

The total OPEB liability, net OPEB liability, and sensitivity information are based on an actuarial valuation date of June 30, 2022. The total OPEB liability was rolled forward from the valuation date to the Plans' fiscal year ended June 30, 2023, using generally accepted actuarial principles.

The District's proportion of the net OPEB liability for CERS was determined using the employers' actual contributions for the fiscal year ending June 30, 2023. This method is expected to be reflective of the employers' long-term contribution effort as well as be transparent to individual employers and their external auditors. At December 31, 2023, the District's proportion was 0.012416% of the nonhazardous plan. For the year ended December 31, 2023, the District recognized a decrease in OPEB expense of \$36,213 for nonhazardous members in CERS. At December 31, 2023, District reported deferred outflows and inflows of resources, related to OPEB, from the following sources:

CERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,951	\$ 243,404
Changes of assumptions	33,735	23,510
Net difference between projected and actual earnings on pension plan investments	32,081	36,060
Changes in proportion and differences between District's contributions and proportionate share of contributions	16,404	4,335
District's contributions subsequent to the measurement date	11,627	-
Totals	\$ 105,798	\$ 307,309

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

\$11,627 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date for the 2023 plan year will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows related to OPEB will be recognized in OPEB expense as follows:

Year Ended 12/31	Amortization of Pension Deferred Outflows (Inflows) of Resources
2023	(50,005)
2024	(66,213)
2025	(52,143)
2026	(44,777)
2027	-
Thereafter	-
	(213,138)

Actuarial assumptions

The discount rates used to calculate the total OPEB liability increased for each fund since the prior year (see further discussion on the calculation of the single discount rates later in this section). There were no other material assumption changes and it is GRS' opinion that these procedures are reasonable and appropriate, and comply with applicable requirements under GASB No. 74.

The actuarially determined contribution rates effective for fiscal year ended 2023 that are documented in the schedules were calculated as of June 30, 2020. Based on the June 30, 2020, actuarial valuation reports the actuarial methods and assumptions used to calculate the required contributions are:

- Investment Return - 6.25%.
- Inflation - 2.30%.
- Salary Increases - 3.30% to 10.30% for CERS Nonhazardous, 3.55% to 19.05% for CERS Hazardous
- Payroll Growth - 2.00% for CERS Nonhazardous and CERS Hazardous
- 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.
- Health Care Trend Rates:
 - Pre-65 - Initial trend starting at 6.30% on January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.
 - Post-65 - Initial trend starting at 6.30% on January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Plan Provisions

Senate Bill 209 passed during the 2023 legislative session increased the insurance dollar contribution for members hired on or after July 1, 2003, by \$5 for each year of service a member attains over certain thresholds, depending on a member’s retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member’s applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023.

To model the financial impact of the requirement for the funds to be 90% funded, GRS assumed the increase in the insurance dollar contribution is payable in all calendar years for the CERS plans, as they were above or approaching 90% funded as of the June 30, 2022, Actuarial Valuation.

Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA. In general, allowing members to receive reimbursement to participate in health plans other than those administered by KPPA would increase the utilization of the dollar benefit. The current election assumption for future members receiving the dollar insurance benefit is 100%, so there is no immediate change in the total OPEB liability for active members due to this benefit change. For current retirees and beneficiaries eligible for the dollar insurance benefit who have not yet elected coverage, GRS assumed 50% would elect coverage under this benefit change.

The total OPEB liability as of June 30, 2023, is determined using these updated benefit provisions. There were no other plan provision changes that would materially impact the total OPEB liability.

Implicit Employer Subsidy for non-Medicare retirees

The fully-insured premiums paid for the Kentucky Employees’ Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB No. 74 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

Discount Rates

The following single discount rates were used to measure the total OPEB liability for the fiscal year ending June 30, 2023.

CERS Nonhazardous	5.93%
CERS Hazardous	5.97%

The single discount rates are based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.86%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2023. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the 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 retirement system.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the plan’s actuarial determined contributions, and it is our understanding that 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.

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that the entire actuarially determined employer contribution is received by each plan each future year, calculated in accordance with the current funding policy.

Additional health care contributions (IRC 401(h) Subaccount)

Based on guidance issued by GASB in connection with GASB Statement No. 74, the 1% of pay member contributions for Tier 2 and Tier 3 members to a 401(h) subaccount is considered an OPEB asset. As a result, the reported fiduciary net position includes these 401(h) assets. Additionally, these member contributions and associated retirement income and administrative expenses are included in the reconciliation of the fiduciary net position.

Sensitivity Analysis

The following table presents the District’s proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.20% for the Nonhazardous plan and 5.05% for the Hazardous plan, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.20%/4.05%) or 1-percentage-point higher (6.20%/6.05%) than the current rate:

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
4.93%	5.93%	6.93%
\$32,170	(\$17,142)	(\$58,435)

In addition, GASBS No. 75 requires a sensitivity analysis for the healthcare trend rate for OPEB Plans using the same increase and decrease of 1%. The following table presents the net OPEB liability of the District with these adjustments.

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
(\$54,944)	(\$17,142)	\$29,294

OPEB plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of the County Employees Retirement System.

NOTE 9 - PURCHASED WATER

The District entered into a written agreement to purchase most of its water from Winchester Municipal Utilities (WMU). The term of the contract is for forty years ending October 3, 2059 with the right to renew and extend for an additional twenty years. The District purchases water at \$1.72 per 100 cubic feet of water. This rate is subject to periodic increases by WMU. With the approval of the Public Service Commission, the District may pass these rate increases along to its customers. Water is delivered to the District by meters maintained by WMU.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 10 – SUBSEQUENT EVENT

The District has evaluated subsequent events through April 26, 2024, the date on which these financial statements were available to be issued.

NOTE 11 – RISKS AND UNCERTAINTIES

Prior to the year ended December 31, 2022, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. While most industries experienced disruption to operations and the impact of reduced consumer spending ECCWD was able to continue to serve its customers with few, if any, economic ramifications. Accordingly, while management cannot quantify any lingering financial and other impact to ECCWD, as of April 26, 2024, management does not believe that there has been a material impact on ECCWD's financial position and results of future operations.

REQUIRED SUPPLEMENTARY INFORMATION

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM:	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	12/31/2023 (6/30/23)	12/31/2022 (6/30/22)	12/31/2021 (6/30/21)	12/31/2020 (6/30/20)	12/31/2019 (6/30/19)	12/31/2018 (6/30/18)	12/31/2017 (6/30/17)	12/31/2016 (6/30/16)	12/31/2015 (6/30/15)
NONHAZARDOUS PLAN									
District's proportion of the net pension liability	0.012416%	0.011795%	0.012098%	0.011481%	0.010851%	0.010887%	0.010048%	0.011160%	0.010960%
District's proportionate share of the net pension liability	\$ 796,674	\$ 852,662	\$ 771,342	\$ 880,583	\$ 763,156	\$ 663,051	\$ 588,140	\$ 547,303	\$ 471,091
District's covered-employee payroll	\$ 368,329	\$ 334,409	\$ 295,991	\$ 282,749	\$ 263,115	\$ 267,268	\$ 238,770	\$ 255,169	\$ 263,636
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	216.29%	254.98%	260.60%	311.44%	290.05%	248.08%	246.32%	214.49%	178.69%
Plan fiduciary net position as a percentage of the total pension liability	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED DECEMBER 31, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM:	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 80,259	\$ 77,097	\$ 72,764	\$ 58,215	\$ 44,397	\$ 39,071	\$ 34,127	\$ 31,581	\$ 32,731
Contributions in relation to the contractually required contribution	<u>80,259</u>	<u>77,097</u>	<u>72,764</u>	<u>58,215</u>	<u>44,397</u>	<u>39,071</u>	<u>34,127</u>	<u>31,581</u>	<u>32,731</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 342,987	\$ 360,266	\$ 377,016	\$ 301,632	\$ 263,115	\$ 267,268	\$ 238,770	\$ 255,169	\$ 263,636
District's contributions as a percentage of its covered-employee payroll	23.40%	21.40%	19.30%	19.30%	16.87%	14.62%	14.29%	12.38%	12.42%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION
FOR THE YEAR ENDED JUNE 30, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

The actuarially determined contribution rates are determined on an annual basis using the actuarial valuation conducted two years prior to the year in which the contribution will be assessed.

2023 Changes of Assumptions –The investment rate of return was changed from 6.25% to 6.50%.

2020 Changes of Assumptions –The amortization period for the unfunded liability was reset as of June 30, 2019, to a closed 30-year period.

2019 Changes of Assumptions – The 2019 actuarial valuation used updated mortality tables for all categories of members and beneficiaries and a system-specific mortality table for non-disabled retirees. In 2019, mortality rates for active members were based on the PUB-2010 General Mortality table, for the nonhazardous members and the PUB-2010 Public Safety Mortality table for the hazardous members, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. Post-retirement mortality rates (non-disabled) used 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 PUB-2010 Disabled Mortality Table is used for post-retirement mortality for disabled retirees 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. Previous valuations were based on RP-2000 Combined Mortality Tables.

2017 Changes of Assumptions – For the 2017 actuarial valuation, several key actuarial assumptions were revised. Changes in assumptions prior to 2016 provided minor adjustments to the actuarial measurements. The following table outlines the actuarial methods and assumptions that were used in 2019 and 2016 to determine contribution rates reported for all systems:

Assumption	2017 Valuation	2016 Valuation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level of Percentage of Payroll, closed	Level of Percentage of Payroll, closed
Remaining Amortization Period	26 Years	27 Years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Post-retirement benefit adjustments	0.00%	0.00%
Inflation	2.30%	3.25%
Salary Increase	3.3% to 11.55% varies by service), average, including Inflation	4% , average, including Inflation
Investment Rate of Return	6.25% , Net of Pension Plan Investment Expense, including Inflation	7.5% , Net of Pension Plan Investment Expense, including Inflation

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION
FOR THE YEAR ENDED JUNE 30, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM (Cont'd):

Changes of Benefit Terms -

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

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

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM:	<u>Reporting Fiscal Year (Measurement Date)</u>	<u>Reporting Fiscal Year (Measurement Date)</u>	<u>Reporting Fiscal Year (Measurement Date)</u>	<u>Reporting Fiscal Year (Measurement Date)</u>	<u>Reporting Fiscal Year (Measurement Date)</u>	<u>Reporting Fiscal Year (Measurement Date)</u>	<u>Reporting Fiscal Year (Measurement Date)</u>
	12/31/2023 (6/30/23)	12/31/2022 (6/30/22)	12/31/2021 (6/30/21)	12/31/2020 (6/30/20)	12/31/2019 (6/30/19)	12/31/2018 (6/30/18)	12/31/2017 (6/30/17)
District's proportion of the net OPEB liability	0.012416%	0.011793%	0.012095%	0.011478%	0.010849%	0.010887%	0.010048%
District's proportionate share of the net OPEB liability	\$ (17,142)	\$ 232,736	\$ 231,553	\$ 277,159	\$ 182,475	\$ 193,279	\$ 201,999
District's covered-employee payroll	\$ 368,329	\$ 334,409	\$ 316,852	\$ 300,791	\$ 279,620	\$ 279,813	\$ 238,770
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	-4.65%	69.60%	73.08%	92.14%	65.26%	69.07%	84.60%
Plan fiduciary net position as a percentage of the total OPEB liability	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%	52.40%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - OPEB
FOR THE YEAR ENDED DECEMBER 31, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

	2023	2022	2021	2020	2019	2018	2017
NONHAZARDOUS PLAN							
Contractually required contribution	\$ 11,627	\$ 19,015	\$ 17,946	\$ 14,358	\$ 17,570	\$ 14,989	\$ 11,572
Contributions in relation to the contractually required contribution	11,627	19,015	17,946	14,358	17,570	14,989	11,572
Contribution deficiency (excess)	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 342,987	\$ 360,266	\$ 377,017	\$ 301,639	\$ 279,620	\$ 279,813	\$ 238,770
District's contributions as a percentage of its covered-employee payroll	3.39%	5.28%	4.76%	4.76%	6.28%	5.36%	4.85%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB
FOR THE YEAR ENDED JUNE 30, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

The actuarially determined contribution rates are determined on an annual basis using the actuarial valuation conducted two years prior to the year in which the contribution will be assessed.

2023 Changes in Actuarial Assumptions: Discount rate used to calculate the total OPEB liability increased from 5.70% to 5.93% for the CERS non-hazardous insurance plan.

2022 Changes in Actuarial Assumptions: Discount rate used to calculate the total OPEB liability increased from 5.20% to 5.70% for the CERS non-hazardous insurance plan.

2021 Changes in Actuarial Assumptions: Initial rates for health cost trends for retirees under age 65 were lowered from 6.4% to 6.25% and rates for retirees ages 65 or older were increased from 2.9% to 5.5%. Municipal bond index rate was lowered from 2.45% to 1.92% (Fidelity 20-Year Municipal GO AA Index). And the single discount rate for the CERS non-hazardous insurance plan was lowered from 5.34% to 5.20%.

2017 Changes in Actuarial Assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions which were changed from the 2016 actuarial valuation, applied to all periods included in the measurement:

Investment rate of Return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	4% average
Inflation rate	3.25%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years
Municipal Bond Index Rate	3.56%
Discount Rate	5.84%

SUPPLEMENTARY INFORMATION

EAST CLARK COUNTY WATER DISTRICT
OTHER SUPPLEMENTARY INFORMATION
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2023 AND 2022

	2023 Budget	2023 Actual	Favorable (Unfavorable)	2022 Budget	2022 Actual	Favorable (Unfavorable)
Operating revenues:						
Water sales	\$ 1,756,200	\$ 1,758,534	\$ 2,334	\$ 1,693,000	\$ 1,690,894	\$ (2,106)
Total operating revenues	<u>1,756,200</u>	<u>1,758,534</u>	<u>2,334</u>	<u>1,693,000</u>	<u>1,690,894</u>	<u>(2,106)</u>
Operating expenses:						
Operation and maintenance	1,442,000	1,305,053	136,947	1,339,209	1,364,911	(25,702)
Depreciation and amortization	380,000	378,743	1,257	371,268	378,393	(7,125)
Taxes	32,000	31,875	125	30,184	30,763	(579)
Total operating expenses	<u>1,854,000</u>	<u>1,715,671</u>	<u>138,329</u>	<u>1,740,660</u>	<u>1,774,067</u>	<u>(33,407)</u>
Operating income	<u>(97,800)</u>	<u>42,863</u>	<u>140,663</u>	<u>(47,660)</u>	<u>(83,173)</u>	<u>(35,513)</u>
Non-operating revenues (expenses):						
Interest income	26,663	40,059	13,396	8,700	8,691	(9)
Grant proceeds	26,500	-	(26,500)	23,400	25,731	2,331
Customer connection fees	50,000	53,300	3,300	57,500	53,726	(3,774)
Non-operating income	-	26,500	26,500	-	-	-
Interest expense	-	(21,094)	(21,094)	(27,000)	(26,896)	104
Total non-operating revenues (expenses)	<u>103,163</u>	<u>98,765</u>	<u>(4,398)</u>	<u>62,600</u>	<u>61,252</u>	<u>(1,348)</u>
Change in net position	<u>\$ 5,363</u>	<u>\$ 141,628</u>	<u>\$ 136,265</u>	<u>\$ 14,940</u>	<u>\$ (21,921)</u>	<u>\$ (36,861)</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 397,069	\$ -	\$ -	\$ 397,069
Depreciation	-	-	-	378,743	378,743
Salaries	262,040	-	132,032	-	394,072
Employee benefits	82,165	-	41,400	-	123,565
Supplies	88,107	-	3,322	-	91,429
Repairs and maintenance	17,295	-	9,000	-	26,295
Outside services	24,840	-	28,419	-	53,259
Commissioners' salaries	-	-	29,135	-	29,135
Payroll tax expense	21,195	-	10,680	-	31,875
Professional fees	-	-	28,420	-	28,420
Utilities	28,409	-	7,078	-	35,487
Truck expense	29,441	-	2,733	-	32,174
Equipment rental	10,316	-	-	-	10,316
Insurance	-	-	35,356	-	35,356
Postage	-	-	18,660	-	18,660
Bad debts	-	-	2,199	-	2,199
Miscellaneous	-	-	4,366	-	4,366
Telephone	6,502	-	3,847	-	10,349
Dues and subscriptions	-	-	1,996	-	1,996
Loading station expense	828	-	-	-	828
Employee training and seminars	-	-	11,197	-	11,197
PSC assessment	-	-	2,202	-	2,202
Uniforms	-	-	3,474	-	3,474
Lab testing	7,596	-	-	-	7,596
Travel and meals expense	-	-	2,415	-	2,415
Expenses allocated to capital	(16,806)	-	-	-	(16,806)
	<u>\$ 561,928</u>	<u>\$ 397,069</u>	<u>\$ 377,931</u>	<u>\$ 378,743</u>	<u>\$ 1,715,671</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 409,899	\$ -	\$ -	\$ 409,899
Depreciation	-	-	-	378,393	378,393
Salaries	222,353	-	137,878	-	360,231
Employee benefits	148,891	-	92,326	-	241,217
Supplies	83,905	-	10,236	-	94,141
Repairs and maintenance	23,207	-	5,151	-	28,358
Outside services	18,976	-	13,686	-	32,662
Commissioners' salaries	-	-	30,000	-	30,000
Payroll tax expense	18,988	-	11,775	-	30,763
Professional fees	-	-	24,850	-	24,850
Utilities	26,831	-	8,226	-	35,057
Truck expense	35,460	-	668	-	36,128
Equipment rental	13,741	-	-	-	13,741
Insurance	-	-	35,472	-	35,472
Postage	-	-	15,537	-	15,537
Bad debts	-	-	2,275	-	2,275
Miscellaneous	-	-	2,583	-	2,583
Telephone	3,995	-	1,990	-	5,985
Dues and subscriptions	-	-	2,026	-	2,026
Loading station expense	663	-	-	-	663
Employee training and seminars	-	-	1,508	-	1,508
PSC assessment	-	-	2,231	-	2,231
Uniforms	-	-	3,069	-	3,069
Lab testing	4,891	-	-	-	4,891
Travel and meals expense	-	-	326	-	326
Expenses allocated to capital	(17,939)	-	-	-	(17,939)
	<u>\$ 583,962</u>	<u>\$ 409,899</u>	<u>\$ 401,813</u>	<u>\$ 378,393</u>	<u>\$ 1,774,067</u>

SUMMERS, MCCRARY & SPARKS, P.S.C.

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

To the Board of Commissioners of
East Clark County Water District
Winchester, KY

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 East Clark County Water District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise East Clark County Water District's basic financial statements, and have issued our report thereon dated April 26, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Clark County Water 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Clark County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of East Clark County Water District's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of 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.

Summers, McCrary & Sparks, PSC

Winchester, KY

April 26, 2024