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Elkhorn Water District
Independent Auditor's Report
For Years Ended December 31, 2021 and 2020

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**ELKHORN WATER DISTRICT
INDEPENDENT AUDITOR'S REPORT
December 31, 2021 and 2020**

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INDEPENDENT AUDITOR'S REPORT

Members of the Elkhorn Water District Board
Frankfort, Kentucky 40601

Opinions

We have audited the accompanying financial statements of the governmental activities, and each major fund, of the Elkhorn Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Elkhorn Water District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Elkhorn Water District, as of December 31, 2021, and the respective changes in financial position 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Elkhorn 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 Elkhorn 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 Elkhorn 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 Elkhorn 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2022, on our consideration of the Elkhorn Water 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 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 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 Elkhorn Water District Board's internal control over financial reporting and compliance.

Rick R. Waddle, Jr., CPA

Frankfort, Kentucky
November 8, 2022

Elkhorn Water District
Statements of Net Position
December 31, 2021 and 2020

Assets	2021	2020
Current Assets		
Cash in Bank and on Hand	\$ 213,906	\$ 167,344
Investments at Cost	83,807	83,566
Accounts Receivable	24,953	30,925
Total Current Assets	<u>322,666</u>	<u>281,835</u>
Non-Current Assets		
Restricted Assets - Cash	44,959	36,929
Property, Plant, & Equipment		
Property, Plant, & Equipment	1,709,334	1,268,604
Accumulated Depreciation	(1,109,160)	(1,091,739)
Total Property, Plant & Equipment	<u>600,174</u>	<u>176,865</u>
Total Non-Current Assets	<u>645,133</u>	<u>213,794</u>
Total Assets	<u><u>\$ 967,799</u></u>	<u><u>\$ 495,629</u></u>
Liabilities & Net Assets		
Current Liabilities		
Accounts Payable	\$ 27,055	\$ 19,914
Accrued Taxes Payable	1,173	902
Current Portion of Bonds Payable	7,700	7,200
Total Current Liabilities	<u>35,928</u>	<u>28,016</u>
Long Term Liabilities		
KIA Loan	464,981	-
Bonds Payable	98,900	106,600
Total Long Term Liabilities	<u>563,881</u>	<u>106,600</u>
Total Liabilities	<u>599,809</u>	<u>134,616</u>
Net Assets		
Investment in Capital Assets, Net of Related Debt	28,593	63,065
Restricted	44,961	36,929
Unrestricted	294,436	261,019
Total Net Assets	<u>367,990</u>	<u>361,013</u>
Total Liabilities and Net Assets	<u><u>\$ 967,799</u></u>	<u><u>\$ 495,629</u></u>

The Accompanying Notes are an integral part of these financial statements.

Elkhorn Water District
Statements of Revenues, Expenses, And
Changes In Net Position
For The Years Ended December 31, 2021 and 2020

	2021	2020
Operating Income		
Water Revenue	\$ 344,013	\$ 329,429
Total Operating Income	<u>344,013</u>	<u>329,429</u>
Operating Expenses		
Purchased Water	192,122	180,062
Purchased Power	7,692	7,751
Contractual Services	45,703	40,119
Advertising	493	636
Payroll taxes	551	551
Postage	2,645	2,640
Maintenance	8,100	8,645
Office Supplies	10,804	4,059
Insurance	4,684	4,189
Legal & Professional	12,520	14,120
Commissioner's Fees	8,078	7,928
Utilities & Telephone	1,695	1,678
Rent	118	92
Chemical & Lab Analysis	2,996	2,398
Miscellaneous	2,144	3,048
Administrative Fee	17,881	19,314
Depreciation	17,422	12,183
Total Operating Expenses	<u>335,648</u>	<u>309,413</u>
Operating Income	<u>8,365</u>	<u>20,016</u>
Net Operating Revenue (Expenses)		
Interest Revenue	457	879
Interest Expense	(9,385)	(6,326)
Total Non-Operating Revenue (Expenses)	<u>(8,928)</u>	<u>(5,447)</u>
Net Income Before Contributions	<u>(563)</u>	<u>14,569</u>
Capital Contributions	<u>7,540</u>	<u>8,340</u>
Change In Position	6,977	22,909
Net Position - Beginning of Year	<u>361,013</u>	<u>338,104</u>
Net Position - End of Year	<u>\$ 367,990</u>	<u>\$ 361,013</u>

The accompanying notes are an integral part of these financial statements

Elkhorn Water District
Statements of Cash Flows
For The Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 349,985	\$ 330,418
Cash Payments for Employee Services and Benefits	(8,629)	(8,479)
Cash Payments to Suppliers for Goods and Services	(302,183)	(286,005)
Net Cash Provided (Used) by Operating Activities	<u>39,173</u>	<u>35,934</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(440,731)	(11,999)
Capital Contributions Received	7,540	8,340
KIA Loan Proceeds	464,981	-
Bond and Bond Interest Payments	(16,585)	(13,026)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>15,205</u>	<u>(16,685)</u>
Cash Flows From Investing Activities:		
Investment Income Received	457	879
Cash Purchases of Investments	(241)	(250)
Net Cash Provided (Used) by Investing Activities	<u>216</u>	<u>629</u>
Net Increase (Decrease) in Cash & Cash Equivalents	54,594	19,878
Cash and Cash Equivalents, Beginning of Year	<u>204,273</u>	<u>184,395</u>
Cash and Cash Equivalents, End of Year	<u>\$ 258,867</u>	<u>\$ 204,273</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities		
Operating Income (Loss)	\$ 8,365	\$ 20,016
Adjustment to Reconcile Operating Income (Loss) to		
Net Cash Provided (Used) in Operating Activities:		
Depreciation	17,422	12,183
(Increase)/Decrease in Accounts Receivable	5,972	989
Increase/(Decrease) in Accounts Payable	7,141	3,901
Increase/(Decrease) in Accrued Liabilities	273	(1,155)
Net Cash Provided (Used) by Operating Activities	<u>\$ 39,173</u>	<u>\$ 35,934</u>
Components of Cash on the Statement of Net Position		
Cash	\$ 213,906	\$ 167,344
Restricted Cash	<u>44,961</u>	<u>36,929</u>
	<u>\$ 258,867</u>	<u>\$ 204,273</u>

The accompanying notes are an integral part of these financial statements

Note A - Summary of Significant Accounting Policies

The Elkhorn Water District (the District) was organized in 1974 to provide water service to residents of its district. It is a political subdivision of Franklin County, Kentucky and purchases water from the Frankfort Plant Board for resale to the residents. The District is subject to the regulatory authority of Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Assets and Liabilities, and revenues and expenses are recognized on the accrual basis of accounting. The District incorporates current GASB pronouncements in its proprietary fund activities. The District does not utilize encumbrance accounting in its proprietary fund activities. The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets, restricted, and unrestricted components.

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

The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Operating revenue and expenses consist of revenue and expenses directly related to providing water service to residents of the district. Water revenues are reflected as earned when the customers are billed. Non-operating revenue and expenses consist of interest revenue and interest expenses related to capital and related financing activities. Capital contributions consist of water meters purchased during the year.

The District does not have an allowance for uncollectible accounts. The District writes off balances due when they become uncollectible.

Fixed Assets are recorded at cost and depreciated using the straight-line method at the following rates:

Pumps, lines, and meters	2.50%
Tanks	3.00%
Office Equipment	10.00%
Meter testing equipment	10.00%

Land and land rights are not subject to depreciation. The District capitalizes interest cost incurred during construction of fixed assets.

Investments are stated at cost, which approximates fair value, unless the market value is less than cost and there is evidence the decline in market value is due to other than temporary conditions.

Note B - Cash and Investments

Statutory Requirements

Kentucky Revised Statute 66.480 authorizes the District to invest in obligations of the U.S. treasury, and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principle, plus accrued interest.

The District's deposits and investments at December 31, 2021 and 2020 were covered by Federal Depository Insurance with the exception of \$8,988, which was over the FDIC limit & not collateralized.

The table presented below is designed to disclose the level of custody credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2021 and 2020.

The categories of credit risk are defined as follows:

- 1) Insured by the FDIC or collateralized with securities held by government or by its agent in the governments name.
- 2) Collateralized with securities held by pledging financial institution's trust department or agent in the government's name.
- 3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the governments name.

2021 Type of Deposit	CATEGORY			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 258,867.00	\$ -	\$ -	\$ 258,867.00	\$ 258,867.00
Certificate of Deposit	83,807.00	-	-	83,807.00	83,807.00
	\$ 342,674.00	\$ -	\$ -	\$ 342,674.00	\$ 342,674.00

2020	CATEGORY			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 204,273.00	\$ -	\$ -	\$ 204,273.00	\$ 204,273.00
Certificate of Deposit	83,566.00	-	-	83,566.00	83,566.00
	\$ 287,839.00	\$ -	\$ -	\$ 287,839.00	\$ 287,839.00

Statement of Cash Flows

The Statement of Cash Flows includes the following as cash and cash equivalents:

	2021	2020
Cash		
Operations & Maintenance Fund	\$ 27,019	\$ 7,221
Revenue Fund	156,569	160,123
Bond Account	30,318	-
Total Cash in Bank	213,906	167,344
Investments		
CD	83,807	83,566
Restricted Cash		
Sinking Fund	3,309	1,483
Reserve Fund	15,668	15,649
Construction Account	25,982	19,797
Total Restricted Cash	44,959	36,929
Total Cash & Cash Equivalents	\$ 342,672	\$ 287,839

Note C - Accounts Payable

Accounts payable at December 31, 2021 and 2020 consist of the following:

	2021	2020
Water Purchases	\$17,005	\$15,292
Electric	649	813
Chemicals	520	460
Accounting	2105	400
Legal & Professional		400
Office Expense	3,826	40
Advertising	0	0
Repairs & Maintenance	2822	2360
Utilities & Telephone	128	149
TOTAL	<u>\$27,055</u>	<u>\$19,914</u>

Most Accounts were paid in January or February, 2022, and all checks cleared the bank.

Note D- Insurance and Related Activities

The District is exposed to various forms of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries general liability and commercial insurance for workers compensation and employee health and accident claims. Settlement claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note E - Purchased Water Contracts

The Elkhorn Water District purchases treated water from the Frankfort Plant Board as the District does not produce it's own water.

Note F - Long-Term Debt

In December 1993 the District issued and sold \$200,000 of USDA Rural Development Bonds for the purpose of extending water service to other customers. The bonds pay interest at 5.25% and mature ratably through the year 2032. The District's annual principle payments are due January 1st of each year. The District paid it's principle and interest requirement for January 1, 2021 at December 31, 2020. The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, 2021:

USDA, Rural Development Bond - \$200,000, date December 6, 1993 with payments through 2032, bearing interest at a rate of 5.25%:

	\$ 106,600
Less Current Portion of Debt	7,700
Long-Term Debt	<u>\$ 98,900</u>

The outstanding amount of the bonds were \$98,900 at December 31, 2021 and \$113,800 at December 31, 2020. The annual debt service requirements to retire the bonds outstanding at December 31, 2021 for each of the next five years and in remaining five year increments are as follows:

Year Ending	Bond/Note Principle	Bond/Note Interest	Total
2022	7,700	5,596	13,296
2023	8,200	5,192	13,392
2024	8,800	4,760	13,560
2025	9,400	4,298	13,698
Thereafter	72,500	14,108	86,608
Total	<u>\$ 106,600</u>	<u>\$ 33,954</u>	<u>140,554</u>

Changes in Long-Term Debt: December 31, 2021

Long-term Debt	31-Dec-20	Additions	Retirements	31-Dec-21	Current Retirement
Long-term Debt	\$ 113,800	\$ -	\$ (7,200)	\$ 106,600	\$ 7,700
KIA	\$ -	\$ 464,981	\$ -	\$ 464,981	\$ -
TOTAL	\$ 113,800	\$ 464,981	\$ (7,200)	\$ 571,581	\$ 7,700

Changes in Long-Term Debt: December 31, 2020

Long-term Debt	31-Dec-19	Additions	Retirements	31-Dec-20	Current Retirement
Bond	\$ 120,500.00	\$ -	\$ (6,700.00)	\$ 113,800.00	\$ 7,200.00

Note G - Reserves

Debt Service Reserve - There is to be a monthly deposit of \$130 until a balance of \$15,600 is accumulated for all bond issues. The Reserve Fund balance totaled \$15,668 at December 31, 2021 and \$15,649 at December 31, 2020, and are included in Restrictions of Net Assets for December 31, 2021 and 2020.

Note H - Concentrations of Credit Risk

The District had \$8,998 cash, and cash equivalents in excess of FDIC insurance as of December 31, 2021. All cash and cash equivalent amounts were under category 1 of credit risk.

Note I - Related Party Transactions

The District utilized the services of Gatewood Water Service as an independent contractor in 2021, and 2020. The District utilized the services of the Peaks Mill Water District for administrative support in 2021, and 2020.

Note J - Management's Review of Subsequent Events

Management did not indicate financially impacting information regarding subsequent events. An evaluation of subsequent events through November 8, 2022, found no events that appeared to have a material effect regarding the accompanying financial statements of Elkhorn Water District as of and for the year ended December 31, 2021 and 2020.

Note K - Property, Plant, & Equipment

Capital Assets Being Depreciated

Description	December 31, 2020	Additions	Retirements	December 31, 2021
Pumps, Lines, & Meters	948,136	435,551	-	1,383,687
Tanks	294,318	-	-	294,318
Meters	16,352	-	-	16,352
Office Equipment	8,798	-	-	8,798
Intangible Asset-KIA Project	-	5,180	-	5,180
Total	\$ 1,267,604	\$ 440,731	\$ -	\$ 1,708,335
Less: Accumulated Depreciation	1,091,739	17,422	-	1,109,161
Net Depreciable Assets	175,865	423,309	-	599,174
Land	1,000	-	-	1,000
Total Capital Assets, Net	\$ 176,865	\$ 423,309	\$ -	\$ 600,174

Capital Assets Being Depreciated

Description	December 31, 2019	Additions	Retirements	December 31, 2020
Pumps, Lines, & Meters	936,137	11,999	-	948,136
Tanks	294,318	-	-	294,318
Meters	16,352	-	-	16,352
Office Equipment	8,798	-	-	8,798
Total	\$ 1,255,605	\$ 11,999	\$ -	\$ 1,267,604
Less: Accumulated Depreciation	1,079,556	12,183	-	1,091,739
Net Depreciable Assets	176,049	(184)	-	175,865
Land	1,000	-	-	1,000
Total Capital Assets, Net	\$ 177,049	\$ (184)	\$ -	\$ 176,865

Depreciation for the years ended December 31, 2021 and 2020 was \$17,422 and \$12,183.

Note L-Interest Expense

Interest expense incurred and charged to expense for the years ended December 31, 2021 and 2020 was \$9,385 and \$6,326. No interest was capitalized in 2021 and 2020.

Note M-Schedule of Annual Debt Requirements

Issue: 1997 Issue (91-03)					
Year End	Bond Prin. Due	Interest		Total	Total
	January 1, 2022	January 1, 2022	July 1, 2022	Interest	Requirements
2022	7,700	2,798	2,798	5,596	13,296
2023	8,200	2,596	2,596	5,192	13,392
2024	8,800	2,380	2,380	4,760	13,560
2025	9,400	2,149	2,149	4,298	13,698
2026	10,100	1,903	1,903	3,806	13,906
2027	10,800	1,638	1,638	3,276	14,076
2028	11,500	1,354	1,354	2,708	14,208
2029	12,400	1,052	1,052	2,104	14,504
2030	13,200	727	727	1,454	14,654
2031	14,500	380	380	760	15,260
	\$ 106,600	\$ 16,977	\$ 16,977	\$ 33,954	\$ 140,554

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*

Elkhorn Water District
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund, of the Elkhorn Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Elkhorn Water District's basic financial statements, and have issued our report thereon dated November 8, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Elkhorn 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 the Elkhorn Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Elkhorn 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 the Elkhorn 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.

Rick R. Waddle Jr., CPA, PLLC

Frankfort, Kentucky
November 8, 2022