

GALLATIN COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2021 and 2020

**GALLATIN COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Gallatin County Water District
Sparta, Kentucky 41086

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Gallatin County Water District as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Gallatin County 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 financial position of the Gallatin County Water District, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for 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 Gallatin 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 opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Gallatin 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Gallatin 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 Gallatin 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 required supplementary information listed in the Table of Contents on pages 3 through 6, and pages 36 through 39 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2022, on our consideration of the Gallatin County 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Gallatin 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 Gallatin County Water District's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

August 4, 2022

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021**

Our discussion and analysis of the Gallatin County Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2021. Please read it in conjunction with the District's financial statements, which begin on page 7.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The balance sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for evaluating the capital of the District and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its water rates and other fees.

The final required financial statement is its statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reported period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL HIGHLIGHTS

The following are key financial highlights:

- Total assets at year-end of \$7,319,229 and deferred outflows of resources of \$158,807 exceeded liabilities of \$3,749,969 and deferred inflows of resources of \$245,471 by \$3,482,596 (i.e. net position). Of the total net position, \$1,179,207 was unrestricted and was available to support short-term operations. Total net position increased from year end 2020 to 2021 in the amount of \$210,556.
- Total Operating Revenues increased by \$59,559. Of the total increase \$26,946 was attributed to an increase in water sales and \$32,613 was attributed to other charges and miscellaneous income. The increase in other charges was mainly attributed to the Public Service Commission lifting the moratorium on service disconnections.
- Total Operating Expenses decreased by \$32,033 mainly attributed to decreases associated with sampling fees and retirement plan expenses.
- The District was in compliance with all debt covenants required by borrowing agreements.

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021**

Statement of Net Position

Utility Plant decreased by \$134,021 net of depreciation, in 2021. (See diagram below.)

Condensed Assets

| | <u>2021</u> | <u>2020</u> | <u>Difference</u> |
|--------------------------|---------------------|---------------------|-------------------|
| Utility Plant | \$ 5,028,363 | \$ 5,162,384 | \$ (134,021) |
| Current Assets | 2,061,695 | 1,857,738 | 203,957 |
| Other Non-current Assets | 229,171 | 221,587 | 7,584 |
| Total Net Assets | <u>\$ 7,319,229</u> | <u>\$ 7,241,709</u> | <u>\$ 77,520</u> |

At the end of December 31, 2021, the District had \$5,028,363 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

| | <u>2021</u> | <u>2020</u> |
|---------------------------|---------------------|---------------------|
| Land & Rights | \$ 226,229 | \$ 226,229 |
| Structures & Improvements | 195,066 | 198,501 |
| Distribution System | 4,305,581 | 4,486,231 |
| Wells | 144,015 | 153,604 |
| Machinery & Equipment | 130,104 | 97,819 |
| Construction in Process | <u>27,368</u> | <u>-</u> |
| Totals | <u>\$ 5,028,363</u> | <u>\$ 5,162,384</u> |

This year's major additions included:

- Purchase of a new 2022 F350 Ford Truck with utility bed.

Deferred outflows of resources and deferred inflows of resources associated with the District's Employees' Pension Plan and other Employee Post Retirement Benefits (Insurance Plans) were \$158,807 and \$204,700 outflows and \$245,471 and \$78,671 inflows for the years ended December 31, 2021 and 2020, respectively. The deferred outflows of resources include contributions to the pension and OPEB plans made by the District subsequent to the net pension liability and net OPEB liability measurement date. Other deferred outflows and inflows are attributable to variances in the actual results versus the actuarial assumptions used by the plans, and therefore, reflect amounts arising from changes made in assumptions, cumulative changes in proportionate share, and differences between employee contributions and proportionate share of contributions. Cumulative differences between projected and actual investment earnings on pension plan investments also gave rise to deferred inflows of resources.

Total Liabilities decreased by \$345,729 attributable mainly to normal principal payments made on outstanding debts and decreases in net pension liabilities.

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021**

Condensed Liabilities

| | <u>2021</u> | <u>2020</u> | <u>Difference</u> |
|-------------------------------|---------------------|---------------------|---------------------|
| Long Term Debt | \$ 3,527,110 | \$ 3,898,793 | \$ (371,683) |
| Current & Accrued Liabilities | 222,859 | 196,905 | 25,954 |
| Total Liabilities | <u>\$ 3,749,969</u> | <u>\$ 4,095,698</u> | <u>\$ (345,729)</u> |

Net Position

At December 31, 2021, net position increased \$210,556 as a result of contributions in aid of construction of \$21,540 in addition the District's income from operations (before contributions) of \$189,016. An increase of \$9,857 to net position for debt service is attributable to normal debt service transfers.

Condensed Net Position

| | <u>2021</u> | <u>2020</u> | <u>Difference</u> |
|----------------------------------|---------------------|---------------------|-------------------|
| Net Investment in Capital Assets | \$ 2,140,022 | \$ 2,154,780 | \$ (14,758) |
| Restricted for Debt Service | 163,406 | 153,549 | 9,857 |
| Unrestricted | 1,179,168 | 963,711 | 215,457 |
| Total | <u>\$ 3,482,596</u> | <u>\$ 3,272,040</u> | <u>\$ 210,556</u> |

Statement of Revenues, Expenses and Changes in Net Position

Operating Revenues for 2021 increased by \$59,559. Operating expenses decreased by \$32,033 in 2021. Depreciation decreased by \$385. The change in non-operating revenues (expenses) reflects the decrease associated with Bond Series 2020C issuance cost incurred in 2020.

Condensed Statement of Revenues and Expenses

| | <u>2021</u> | <u>2020</u> | <u>Difference</u> |
|------------------------------------|-------------------|------------------|-------------------|
| Operating Revenues | \$ 1,214,216 | \$ 1,154,657 | \$ 59,559 |
| Operating Expenses | 964,167 | 996,200 | (32,033) |
| Operating Revenue | \$ 250,049 | \$ 158,457 | \$ 91,592 |
| Non-Operating Revenue (Expenses) | (61,033) | (132,979) | 71,946 |
| Income (Loss) Before Contributions | <u>\$ 189,016</u> | <u>\$ 25,478</u> | <u>163,538</u> |

Statement of Cash Flows

Cash from Operating Activities was up \$55,962 in 2021. Cash from capital and related financing activities in 2021 reflect the monies received and used to finance capital improvements and equipment. Overall cash increased \$221,697. Cash is consistent with expectations for the year.

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021**

Condensed Statement of Cash Flows

| | <u>2021</u> | <u>2020</u> | <u>Difference</u> |
|---|---------------------|-------------------|-------------------|
| Cash from Operating Activities | \$ 514,011 | \$ 458,049 | \$ 55,962 |
| Cash used by Capital & Related Financing Activities | (293,644) | (253,645) | (39,999) |
| Cash from Investing Activities | 1,330 | 1,717 | (387) |
| Change in Cash | \$ 221,697 | \$ 206,121 | \$ 15,576 |
| Cash Balance, Beginning of Year | 965,288 | 759,167 | 206,121 |
| Cash Balance, End of Year | <u>\$ 1,186,985</u> | <u>\$ 965,288</u> | <u>\$ 221,697</u> |

Debt

At year-end, the District had \$2,810,842 in notes payable, bonds payable and accrued compensated absences compared to \$2,931,056 last year as shown below. The decrease is attributable to the payment of scheduled principal and interest payments.

| | <u>2021</u> | <u>2020</u> |
|------------------------------|---------------------|---------------------|
| Notes Payable | \$ 267,834 | \$ 294,156 |
| Bonds Payable | 2,535,000 | 2,630,000 |
| Accrued Compensated Absences | 8,008 | 6,900 |
| Totals | <u>\$ 2,810,842</u> | <u>\$ 2,931,056</u> |

Net Pension Liability and Net OPEB Liability

The District's adoption of GASB 68 and GASB 75 requires that the District report its proportionate share of the net pension liability and net OPEB liability associated with its employees' pension plan and insurance plan (the County Employee Retirement System). The District's proportionate share of the net pension liability was \$581,280 and \$748,507 for the years ended December 31, 2021 and 2020 and was based on measurement dates of June 30, 2021 and 2020, respectively. The District's proportionate share of the net OPEB liability was \$174,052 and \$235,602 for years ending December 31, 2021 and December 31, 2020 and was based on measurement dates of June 30, 2021 and 2020, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District anticipates no changes in customer rates but anticipates a decrease in revenues associated with the Public Service Commission's Staff recommendation to lower the cost of non-recurring charges billed to customers.

The District anticipates a decrease in operating expenses associated with labor, health insurance benefits and retirement plan expenses.

The District was awarded \$116,823 through the Cleaner Water Grant Program. Grant funds will be used for miscellaneous system improvements.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 4500 Highway 455, Sparta, KY 41086.

Tammy Hendren
Office Manager

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash, Including Time Deposits | \$ 1,855,449 | \$ 1,631,597 |
| Accounts Receivable Trade (Net) | 121,238 | 125,640 |
| Accounts Receivable - Other | - | 28,282 |
| Interest Receivable | 1,945 | 2,721 |
| Inventory | 61,874 | 49,461 |
| Prepaid Expense | 21,189 | 20,037 |
| Total Current Assets | <u>\$ 2,061,695</u> | <u>\$ 1,857,738</u> |
| Noncurrent Assets: | | |
| Restricted Assets: | | |
| Cash, Including Time Deposits | \$ 229,171 | \$ 221,587 |
| Capital Assets (Net) | 5,028,363 | 5,162,384 |
| Total Noncurrent Assets | <u>\$ 5,257,534</u> | <u>\$ 5,383,971</u> |
| Total Assets | <u>\$ 7,319,229</u> | <u>\$ 7,241,709</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Attributable to Employee Pension Plan | \$ 67,931 | \$ 105,780 |
| Attributable to Employee OPEB Plan | 90,876 | 98,920 |
| Total Deferred Outflows of Resources | <u>\$ 158,807</u> | <u>\$ 204,700</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 18,411 | \$ 14,002 |
| Accounts Payable Capital Assets | 10,275 | - |
| Accrued Wages | 5,153 | 6,066 |
| Accrued Compensated Absences | 8,008 | 6,900 |
| Accrued Payroll Taxes/Employee Withholding | 10,939 | 8,287 |
| Utility Tax Payable | 2,675 | 2,699 |
| Sales Tax Payable | 688 | 772 |
| Current Liabilities Payable from Restricted Assets: | | |
| Accrued Interest Payable | 35,044 | 36,857 |
| Revenue Bonds Payable | 105,000 | 95,000 |
| Note Payable - Kentucky Infrastructure Authority | 26,666 | 26,322 |
| Total Current Liabilities | <u>\$ 222,859</u> | <u>\$ 196,905</u> |
| Noncurrent Liabilities: | | |
| Revenue Bonds Payable (Including Premium \$75,232 for 2021 and \$83,448 for 2020) | \$ 2,505,232 | \$ 2,618,448 |
| Note Payable - Kentucky Infrastructure Authority | 241,168 | 267,834 |
| Escrow - Customer Construction Deposits | 350 | 4,054 |
| Net Pension Liability | 581,280 | 748,507 |
| Net OPEB Liability | 174,502 | 235,602 |
| Noncurrent Liabilities Payable from Restricted Assets: | | |
| Customer Deposits Payable | 24,578 | 24,348 |
| Total Noncurrent Liabilities | <u>\$ 3,527,110</u> | <u>\$ 3,898,793</u> |
| Total Liabilities | <u>\$ 3,749,969</u> | <u>\$ 4,095,698</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Attributable to Employee Pension Plan | \$ 141,906 | \$ 27,675 |
| Attributable to Employee OPEB Plan | 103,565 | 50,996 |
| Total Deferred Inflows of Resources | <u>\$ 245,471</u> | <u>\$ 78,671</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | \$ 2,140,022 | \$ 2,154,780 |
| Restricted for Debt Service | 163,406 | 153,549 |
| Unrestricted | 1,179,168 | 963,711 |
| Total Net Position | <u>\$ 3,482,596</u> | <u>\$ 3,272,040</u> |

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|----------------------------|----------------------------|
| Operating Revenues: | | |
| Charges for Services: | | |
| Water Charges (Net of Estimated Bad Debts) | \$ 1,159,780 | \$ 1,132,834 |
| Total Charges for Services | <u>\$ 1,159,780</u> | <u>\$ 1,132,834</u> |
| Other Charges and Miscellaneous: | | |
| Billing Service Charges | \$ 21,359 | \$ 6,970 |
| Connection Fees | 17,810 | 8,890 |
| Miscellaneous | 15,267 | 5,963 |
| Total Other Charges and Miscellaneous | <u>\$ 54,436</u> | <u>\$ 21,823</u> |
| Total Operating Revenues | <u>\$ 1,214,216</u> | <u>\$ 1,154,657</u> |
| Operating Expenses: | | |
| Bank Charges | \$ 2,813 | \$ 1,631 |
| Commissioner Fees | 15,200 | 15,600 |
| Contractual Service - Sampling | 8,139 | 16,129 |
| Data Usage - Cellular Read Meters | 23,052 | 23,133 |
| Dues | 2,271 | 3,055 |
| Employee Health Insurance and Benefits | 55,536 | 50,215 |
| Insurance | 28,606 | 27,257 |
| Labor | 245,552 | 237,952 |
| Maintenance of Mains | 85,019 | 67,064 |
| Office Supplies and Expense | 50,746 | 40,561 |
| Other Employee Post Retirement Benefits | 12,634 | 26,736 |
| Other Interest Expense | 45 | 142 |
| Payroll Taxes | 19,731 | 19,080 |
| Professional Services | 19,110 | 15,045 |
| Purchased Water | 9,338 | 7,849 |
| Regulatory Fees | 2,323 | 2,319 |
| Retirement Plan Expense | 34,903 | 104,800 |
| Travel/Transportation Expense | 16,516 | 11,708 |
| Uniforms | 6,991 | 5,003 |
| Office Utilities and Maintenance | 12,111 | 12,613 |
| Utilities - Pumping | 60,432 | 54,824 |
| Depreciation Expense | 253,099 | 253,484 |
| Total Operating Expenses | <u>\$ 964,167</u> | <u>\$ 996,200</u> |
| Operating Income (Loss) | <u>\$ 250,049</u> | <u>\$ 158,457</u> |
| Nonoperating Revenue (Expense): | | |
| Investment Income | \$ 10,293 | \$ 16,405 |
| Interest Expense | (79,031) | (86,518) |
| Bond Issuance Expenses | - | (61,701) |
| Gain (Loss) on Asset Disposition | 7,705 | (1,165) |
| Total Nonoperating Revenues (Expense) | <u>\$ (61,033)</u> | <u>\$ (132,979)</u> |
| Income (Loss) Before Contributions | <u>\$ 189,016</u> | <u>\$ 25,478</u> |
| Capital Contributions | <u>21,540</u> | <u>21,640</u> |
| Change in Net Position | <u>\$ 210,556</u> | <u>\$ 47,118</u> |
| Net Position - Beginning | <u>3,272,040</u> | <u>3,224,922</u> |
| Net Position | <u><u>\$ 3,482,596</u></u> | <u><u>\$ 3,272,040</u></u> |

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Customers | \$ 1,247,022 | \$ 1,118,414 |
| Payments to Suppliers | (103,513) | (66,853) |
| Payments to Employees | (260,557) | (253,413) |
| Other Receipts (Payments) | (368,941) | (340,099) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 514,011</u> | <u>\$ 458,049</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Contributions | \$ 17,836 | \$ 24,542 |
| Purchases of Capital Assets | (108,803) | (47,882) |
| Proceeds - Sale of Assets | 7,705 | - |
| Proceeds - New Bond Issue | - | 1,590,000 |
| Proceeds - Bond Premium | - | 53,516 |
| Bond Issuance Costs | - | (61,701) |
| Principal Paid on Capital Debt | (121,322) | (1,701,984) |
| Interest Paid on Capital Debt | (89,060) | (110,136) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>\$ (293,644)</u> | <u>\$ (253,645)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investments | \$ (9,739) | \$ (541,656) |
| Cashed Investments | - | 525,102 |
| Interest on Investments | 11,069 | 18,271 |
| Net Cash Provided (Used) by Investing Activities | <u>\$ 1,330</u> | <u>\$ 1,717</u> |
| Net (Increase) in Cash and Cash Equivalents | \$ 221,697 | \$ 206,121 |
| Balances-Beginning of the Year | <u>965,288</u> | <u>759,167</u> |
| Balances-End of the Year | <u><u>\$ 1,186,985</u></u> | <u><u>\$ 965,288</u></u> |

| | Balances Per December 31, 2021 Statement of Net Position | Balances Per December 31, 2021 Statement of Cash Flows |
|---|---|---|
| Cash | \$ 957,814 | \$ 957,814 |
| Time Deposits | 897,635 | - |
| Restricted Cash | 229,171 | 229,171 |
| Restricted Time Deposits | - | - |
| Total Cash and Cash Equivalents, End of Year | <u>\$ 2,084,620</u> | <u>\$ 1,186,985</u> |
| | Balances Per December 31, 2020 Statement of Net Position | Balances Per December 31, 2020 Statement of Cash Flows |
| Cash | \$ 743,701 | \$ 743,701 |
| Time Deposits | 887,896 | - |
| Restricted Cash | 221,587 | 221,587 |
| Restricted Time Deposits | - | - |
| Total Cash and Cash Equivalents, End of Year | <u>\$ 1,853,184</u> | <u>\$ 965,288</u> |

(Continued)

**GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020**

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating Income (Loss) | \$ 250,049 | \$ 158,457 |
| Adjustments to Reconcile Operating Income to Net Cash | | |
| Provided (Used) by Operating Activities: | | |
| Cash Flows Reported in Other Categories: | | |
| Depreciation Expense | 253,099 | 253,484 |
| Pension Expense | (15,147) | 59,199 |
| OPEB Expense | (487) | 15,119 |
| Change in Assets and Liabilities: | | |
| Receivables, Net | 32,684 | (36,941) |
| Inventories | (12,413) | 7,446 |
| Prepaid Expenses | (1,152) | (2,681) |
| Accounts and Other Payables | 4,409 | 3,295 |
| Accrued Expenses | 2,739 | 281 |
| Customer Meter Deposits Payable | 230 | 390 |
| Net Cash Provided by Operating Activities | <u>\$ 514,011</u> | <u>\$ 458,049</u> |

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2021 and 2020, Gallatin County Water District had \$10,275 and \$-0- capital expenditures or other noncash investing activities outstanding.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The Gallatin County Water District is a rural water company serving approximately 1,890 customers in Gallatin, Grant and Boone Counties of Kentucky, and regulated by the Public Service Commission of the Commonwealth of Kentucky. The Water District was formed under the laws of Gallatin County in September 1960 through the Fiscal Court (reaffirmed in 1985) and began operations in July 1989.

In evaluating how to define Gallatin County Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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 (or cost recovery), 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 [measured as the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources] is segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first. Restricted amounts are considered to be spent when an expense is incurred for the purpose of such classifications.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2021**

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment: Property and equipment purchased or constructed is stated at cost. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

| | |
|-----------------------------|-------------|
| - Structures & Improvements | 40 years |
| - Distribution System | 30-50 years |
| - Wells | 35 years |
| - Machinery & Equipment | 5-20 years |

Inventory: Inventories are stated at latest cost.

Compensated Absences: See Note 9 for the District's policy on vacation and personal days.

Pension: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Post Employment Benefits Other Than Pensions

For purposes of measuring the net liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Bond Premium: Original issue debt premiums are amortized as a component of interest expense over the life of the associated debt using the interest method. Unamortized premiums are reported as an addition to the face amount of the debt in the Statement of Net Position.

Deferred Outflows of Resources and Deferred Inflows of Resources: Deferred Outflows of Resources and Deferred Inflows of Resources are not assets or liabilities; revenues or expenses. Rather they represent resources or the use of resources related to future periods.

Income Taxes: The Gallatin County Water District is not subject to income taxes.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. No grant monies were received in the years ended December 31, 2021 and 2020. Tap-on fees of \$21,540 and \$21,640 were received by the District for the years ended December 31, 2021 and 2020.

Net position: Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Gallatin County Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The KRWFC Sinking Accounts are held at Regions Bank. These two accounts were established with the issuance of the Kentucky Rural Water Finance Corporation 2017A and 2020C Refunding Revenue Bonds. Under the debt agreements which established the accounts, it was provided that monthly sinking fund payments be made as follows:

| | |
|---|---|
| | one sixth (1/6) of the next semiannual interest payment |
| + | one twelfth (1/12) of next annual principal payment |
| = | monthly transfer |

A funded maintenance and replacement reserve is required by the District's Assistance Agreement (B99-02) with the Kentucky Infrastructure Authority. Under the agreement, the District must deposit into this account an amount equal to 10% of the amount of the loan payment until the amount accumulated on deposit is equal to 5% of the original principal amount of the loan. Transfers were made as required in 2021 and 2020.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2021 and 2020, in accordance with the District's policy, \$250,000 and \$1,747,762 respectively, of the District's deposits were covered by federal depository insurance or Federal Home Loan Bank letters of credit. Additionally the depository had pledged securities held by the financial institution's agent in the District's name with market values of \$1,893,022 and \$140,089 at December 31, 2021 and 2020, respectively as additional collateral. Thus the District had no deposits that were exposed to custodial credit risk.

December 31, 2021

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|---------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ 285,579 | \$ 285,931 |
| Time and Savings Deposits | 1,798,599 | 1,798,599 |
| Total Deposits | <u>\$ 2,084,178</u> | <u>\$ 2,084,530</u> |

December 31, 2020

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|---------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ 228,552 | \$ 225,681 |
| Time and Savings Deposits | 1,627,413 | 1,627,413 |
| Total Deposits | <u>\$ 1,855,965</u> | <u>\$ 1,853,094</u> |

Reconciliation to Statement of Net Position:

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--|--------------------------|--------------------------|
| Unrestricted Cash, Including Time Deposits | \$ 1,855,449 | \$ 1,631,597 |
| Restricted Cash, Including Time Deposits | 229,171 | 221,587 |
| Less Cash on Hand | (90) | (90) |
| | <u>\$ 2,084,530</u> | <u>\$ 1,853,094</u> |

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--|--------------------------|--------------------------|
| Customer Deposits | \$ 30,721 | \$ 31,181 |
| Speedway Maintenance and Replacement Reserve | 37,831 | 37,644 |
| Bond and Interest Sinking Account - KRWF | <u>160,619</u> | <u>152,762</u> |
| Total | <u>\$ 229,171</u> | <u>\$ 221,587</u> |

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$6,942 and \$7,949 at December 31, 2021 and 2020, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2021 and 2020, was as follows:

| | <u>Balance at January 1, 2021</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at December 31, 2021</u> |
|--------------------------------|---------------------------------------|---------------------|------------------|---|
| Land & Land Rights | \$ 226,229 | \$ - | \$ - | \$ 226,229 |
| Organizational Fees | 31,926 | - | - | 31,926 |
| Structures & Improvements | 360,165 | 5,952 | - | 366,117 |
| Distribution System | 9,627,090 | 33,188 | - | 9,660,278 |
| Wells | 372,187 | - | - | 372,187 |
| Machinery & Equipment | 373,589 | 52,570 | 37,858 | 388,301 |
| Construction in Process | - | 27,368 | - | 27,368 |
| Totals at Historical Cost | <u>\$ 10,991,186</u> | <u>\$ 119,078</u> | <u>\$ 37,858</u> | <u>\$ 11,072,406</u> |
| Less: Accumulated Depreciation | | | | |
| Organizational Fees | \$ 31,926 | \$ - | \$ - | \$ 31,926 |
| Structures & Improvements | 161,664 | 9,387 | - | 171,051 |
| Distribution System | 5,140,859 | 213,838 | - | 5,354,697 |
| Wells | 218,583 | 9,589 | - | 228,172 |
| Machinery & Equipment | 275,770 | 20,285 | 37,858 | 258,197 |
| Total Accumulated Depreciation | <u>\$ 5,828,802</u> | <u>\$ 253,099</u> | <u>\$ 37,858</u> | <u>\$ 6,044,043</u> |
| Capital Assets, Net | <u>\$ 5,162,384</u> | <u>\$ (134,021)</u> | <u>\$ -</u> | <u>\$ 5,028,363</u> |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 6 – CAPITAL ASSETS (Continued)

| | Balance at January 1, 2020 | Additions | Disposals | Balance at December 31, 2020 |
|--------------------------------|-------------------------------|---------------------|-----------------|---------------------------------|
| Land & Land Rights | \$ 226,229 | \$ - | \$ - | \$ 226,229 |
| Organizational Fees | 31,926 | - | - | 31,926 |
| Structures & Improvements | 360,165 | - | - | 360,165 |
| Distribution System | 9,603,497 | 23,593 | - | 9,627,090 |
| Wells | 372,187 | - | - | 372,187 |
| Machinery & Equipment | 351,419 | 24,289 | 2,119 | 373,589 |
| Construction in Process | - | - | - | - |
| Totals at Historical Cost | <u>\$ 10,945,423</u> | <u>\$ 47,882</u> | <u>\$ 2,119</u> | <u>\$ 10,991,186</u> |
| Less: Accumulated Depreciation | | | | |
| Organizational Fees | \$ 31,926 | \$ - | \$ - | \$ 31,926 |
| Structures & Improvements | 152,310 | 9,354 | - | 161,664 |
| Distribution System | 4,928,310 | 212,549 | - | 5,140,859 |
| Wells | 208,729 | 9,854 | - | 218,583 |
| Machinery & Equipment | 254,997 | 21,727 | 954 | 275,770 |
| Total Accumulated Depreciation | <u>\$ 5,576,272</u> | <u>\$ 253,484</u> | <u>\$ 954</u> | <u>\$ 5,828,802</u> |
| Capital Assets, Net | <u>\$ 5,369,151</u> | <u>\$ (205,602)</u> | <u>\$ 1,165</u> | <u>\$ 5,162,384</u> |

Land and land rights are capital assets not being depreciated. Included under the District's plant assets were \$1,741,890 and \$1,741,834 of fully depreciated assets, at December 31, 2021 and 2020, respectively.

Depreciation expense aggregated \$253,099 and \$253,484 in 2021 and 2020, respectively.

NOTE 7 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full) or one year pending a satisfactory payment record. Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Accrued interest is paid annually and when the deposit is refunded.

Escrow - Customer construction deposits represent amounts collected for hookups on future line extensions and/or hookup deposits held for services not installed.

NOTE 8 – LONG-TERM DEBT

On July 11, 2017, the Gallatin County Water District issued \$1,180,000 Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2017A to defease the \$1,199,200 of its 1988A, 1988B, 1993, 1996, 2000A, 2000B and 2002 bonds outstanding as of that date. As a result of the defeasement, the District reduced its total debt service requirements by \$224,751, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$122,808. Final maturity on the 2017A issue is July 1, 2039. A reoffering premium was received in the amount of \$49,007. The premium is amortized as a reduction of interest expense over the life of the new issue.

On March 17, 2020, the Gallatin County Water District issued \$1,590,000 Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2020C, to defease the \$1,583,600 of its 2006A and 2006B bonds outstanding as of that date. The defeased bonds had an interest rate of 4.125%. The 2020C bonds were issued at 2.2% - 5.2%. As a result of the defeasement, the District reduced its total debt service requirements by

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 8 – LONG-TERM DEBT (Continued)

\$389,096, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$270,736. Final maturity on the 2020C issue is February 1, 2047. Underwriting expenses and other costs of issuance were \$61,701. A reoffering premium was received in the amount of \$53,516. The premium is amortized as a reduction of interest expense over the life of the new issue.

As of December 31, 2021 and 2020, the long-term debt payable consisted of the following:

Notes Payable:

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--|--------------------------|--------------------------|
| Kentucky Infrastructure Authority note payable represents a thirty year loan secured by water revenues. Interest is charged at 1.3% per annum. The original principal balance was \$744,796. Payments of principal, interest, and servicing fees are due semiannually. Final maturity is June 1, 2031. | \$ 267,834 | \$ 294,156 |
| Total Notes Payable | <u>\$ 267,834</u> | <u>\$ 294,156</u> |
| Current Portion | \$ 26,666 | \$ 26,322 |
| Noncurrent Portion | 241,168 | 267,834 |
| Total Notes Payable | <u>\$ 267,834</u> | <u>\$ 294,156</u> |

Upon the occurrence of an event of default, the Kentucky Infrastructure Authority shall be entitled to the appointment of a receiver of the System and all receipts therefrom. The Kentucky Infrastructure Authority may pursue any available remedy to enforce payment obligations or to remedy any event of default. In the event that the District defaults, the defaulting party also agrees to pay the fees of such attorneys and other expenses incurred by the Kentucky Infrastructure Authority.

Bonds Payable:

KRWFC Flexible Term Program Series 2017A, original issue amount of \$1,180,000, secured by water revenues. Interest is charged at the rate of 3.2% to 4.2% per annum. Final maturity is February 1, 2039.

| | | |
|--|------------|--------------|
| | \$ 980,000 | \$ 1,040,000 |
|--|------------|--------------|

KRWFC Public Projects Refunding and Improvement Revenue Bonds Series 2020C, original issue amount \$1,590,000, secured by water revenues. Interest is charged at the rate of 2.2% to 5.2% per annum. Final maturity is February 1, 2047.

| | | |
|---------------------|---------------------|---------------------|
| | 1,555,000 | 1,590,000 |
| Total Bonds Payable | <u>\$ 2,535,000</u> | <u>\$ 2,630,000</u> |
| Current Portion | \$ 105,000 | \$ 95,000 |
| Noncurrent Portion | 2,430,000 | 2,535,000 |
| Total Bonds Payable | <u>\$ 2,535,000</u> | <u>\$ 2,630,000</u> |

If there is any default in the payment of the principal of or interest on any of the bonds, then upon the filing of suit by any holder of said bonds, any court having jurisdiction of the action may appoint a receiver to administer the system on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the system, and for the payment of current expenses, and to apply the revenues in conformity with the bond resolution and the provisions of the statute laws of Kentucky.

Accrued Compensated Absences:

| | | |
|--------------------------------------|-----------------|-----------------|
| Current Accrued Compensated Absences | <u>\$ 8,008</u> | <u>\$ 6,900</u> |
|--------------------------------------|-----------------|-----------------|

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 8 – LONG-TERM DEBT (Continued)

Bond Premium

Bond Premiums associated with the Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2017A and series 2020C are to be amortized over the life of the bonds and reported as a component of interest expense using the interest method. The original premium received at the issuance of the 2017A Series, July 11, 2017, was \$49,007. Amortization for the years ended December 31, 2021 and 2020 was \$4,334 and \$4,624, respectively. The unamortized premium balance was \$27,072 and \$31,406 at December 31, 2021 and 2020, respectively.

The original premium received at the issuance of the 2020 C Series, March 17, 2020, was \$53,516. Amortization for the years ended December 31, 2021 and 2020 was \$3,882 and \$1,473, respectively. The unamortized premium balance was \$48,160 and \$52,042 at December 31, 2021 and 2020, respectively.

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2021 and 2020.

December 31, 2021

| | Balance at January 1, 2021 | Additions | Reductions | Balance at December 31, 2021 | Current Portion |
|------------------------------|-------------------------------|------------------|-------------------|---------------------------------|--------------------|
| Notes Payable | \$ 294,156 | \$ - | \$ 26,322 | \$ 267,834 | \$ 26,666 |
| Bonds Payable | 2,630,000 | - | 95,000 | 2,535,000 | 105,000 |
| Accrued Compensated Absences | 6,900 | 13,117 | 12,009 | 8,008 | 8,008 |
| Total Long-Term Debt | <u>\$ 2,931,056</u> | <u>\$ 13,117</u> | <u>\$ 133,331</u> | <u>\$ 2,810,842</u> | <u>\$ 139,674</u> |

December 31, 2020

| | Balance at January 1, 2020 | Additions | Reductions | Balance at December 31, 2020 | Current Portion |
|------------------------------|-------------------------------|---------------------|---------------------|---------------------------------|--------------------|
| Notes Payable | \$ 320,140 | \$ - | \$ 25,984 | \$ 294,156 | \$ 26,322 |
| Bonds Payable | 2,716,000 | 1,590,000 | 1,676,000 | 2,630,000 | 95,000 |
| Accrued Compensated Absences | 5,569 | 20,077 | 18,746 | 6,900 | 6,900 |
| Total Long-Term Debt | <u>\$ 3,041,709</u> | <u>\$ 1,610,077</u> | <u>\$ 1,720,730</u> | <u>\$ 2,931,056</u> | <u>\$ 128,222</u> |

The annual requirements for all long-term debt outstanding at December 31, 2021, are as follows:

| Due | Bonds | Bond Interest | KIA Note | Note Interest | Note Servicing Fee | Total Payments Due |
|-----------|---------------------|-------------------|-------------------|------------------|-----------------------|-----------------------|
| 2022 | \$ 105,000 | \$ 80,171 | \$ 26,666 | \$ 3,395 | \$ 522 | \$ 215,754 |
| 2023 | 105,000 | 75,361 | 27,014 | 3,048 | 469 | 210,892 |
| 2024 | 105,000 | 70,551 | 27,366 | 2,695 | 415 | 206,027 |
| 2025 | 115,000 | 65,506 | 27,723 | 2,338 | 360 | 210,927 |
| 2026 | 125,000 | 59,991 | 28,084 | 6,174 | 950 | 220,199 |
| 2027-2031 | 610,000 | 226,496 | 130,981 | 97 | 15 | 967,589 |
| 2032-2036 | 515,000 | 144,623 | - | - | - | 659,623 |
| 2037-2041 | 405,000 | 83,461 | - | - | - | 488,461 |
| 2042-2046 | 370,000 | 35,713 | - | - | - | 405,713 |
| 2047 | 80,000 | 1,080 | - | - | - | 81,080 |
| | <u>\$ 2,535,000</u> | <u>\$ 842,953</u> | <u>\$ 267,834</u> | <u>\$ 17,747</u> | <u>\$ 2,731</u> | <u>\$ 3,666,265</u> |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt (Continued)

The annual requirements for all long-term debt outstanding at December 31, 2020 are as follows:

| <u>Due</u> | <u>Bonds</u> | <u>Bond Interest</u> | <u>KIA Note</u> | <u>Note Interest</u> | <u>Note Servicing Fee</u> | <u>Total Payments Due</u> |
|------------|---------------------|--------------------------|-------------------|--------------------------|-------------------------------|-------------------------------|
| 2021 | \$ 95,000 | \$ 84,746 | \$ 26,322 | \$ 3,739 | \$ 575 | \$ 210,382 |
| 2022 | 105,000 | 80,171 | 26,666 | 3,395 | 522 | 215,754 |
| 2023 | 105,000 | 75,361 | 27,014 | 3,048 | 469 | 210,892 |
| 2024 | 105,000 | 70,551 | 27,366 | 2,695 | 415 | 206,027 |
| 2025 | 115,000 | 65,506 | 27,723 | 2,338 | 360 | 210,927 |
| 2026-2030 | 615,000 | 248,436 | 144,132 | 6,174 | 950 | 1,014,692 |
| 2031-2035 | 550,000 | 159,217 | 14,933 | 97 | 15 | 724,262 |
| 2036-2040 | 420,000 | 94,230 | - | - | - | 514,230 |
| 2041-2045 | 360,000 | 45,161 | - | - | - | 405,161 |
| 2046-2047 | 160,000 | 4,320 | - | - | - | 164,320 |
| | <u>\$ 2,630,000</u> | <u>\$ 927,699</u> | <u>\$ 294,156</u> | <u>\$ 21,486</u> | <u>\$ 3,306</u> | <u>\$ 3,876,647</u> |

NOTE 9 – COMPENSATED ABSENCES

Vacation days accumulate as follows:

| | |
|------------------------------------|---------------------|
| At the end of 1 st year | 1 week of vacation |
| At the end of 2 nd year | 2 weeks of vacation |
| At the end of 5 th year | 3 weeks of vacation |

Vacation, if not taken in the calendar year due, is lost, unless specifically approved by the Commissioners. In 2001, the District approved a policy under which employees accrue 5 days of personal leave per year. In 2009, the District approved a policy under which an employee may accumulate up to 60 days (previously it was 30 days) personal leave. The District accrues a liability for compensated absences, which meet the following criteria:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the District accrues a liability for compensated absences. \$8,008 and \$6,900 of accrued compensated absences were payable at December 31, 2021 and December 31, 2020, respectively.

NOTE 10 – INTEREST EXPENSE

Interest expense incurred and charged to expense, net of bond premium amortization, for the years ended December 31, 2021 and 2020 was \$79,076 and \$86,660, respectively.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Restricted for Debt Service: | | |
| Kentucky Rural Water | | |
| Flexible Term Finance Program Bonds and Kentucky | | |
| Infrastructure Authority Note | | |
| Cash | \$ 198,450 | \$ 190,406 |
| Add: Accrued Interest Receivable | - | - |
| Less: Accrued Interest Payable | (35,044) | (36,857) |
| Total Restricted for Debt Service | <u>\$ 163,406</u> | <u>\$ 153,549</u> |

Unrestricted net position was increased by \$15,634 and reduced by \$74,318 for the years ended June 30, 2021 and 2020, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability and Net OPEB Liability. The accounts affected were as follows:

| | <u>2021</u> | <u>2020</u> |
|---|---------------|-----------------|
| Increase (Decrease) in Deferred Outflows of Resources | (45,893) | 15,425 |
| (Increase) Decrease in Deferred Inflows of Resources | (166,800) | 13,591 |
| (Increase) Decrease in Net Pension Liability | 167,227 | (37,677) |
| (Increase) Decrease in Net OPEB Liability | 61,100 | (65,657) |
| Net Decrease in Unrestricted Net Position | <u>15,634</u> | <u>(74,318)</u> |

NOTE 12 – BAD DEBT EXPENSE

Water revenue charges have been netted with estimated bad debt expense of \$4,768 and \$6,639 at December 31, 2021 and 2020, respectively.

NOTE 13 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. The District is also subject to the risks associated with employee injury. Each of these risks is covered through coverage provided by Allied World Assurance Company, LTD (property/general liability) and Kentucky Employer Mutual Insurance (KEMI) (Workers Compensation).

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN)

The Gallatin County Water District participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees administered by the Kentucky Public Pension Authority (KPPA). Under revised Statute Section 78.732 and 61.645, the KPPA oversees the administration and operation of the personnel and accounting systems for the CERS, which is administered by the CERS board.

The responsibility for the general administration and operation of CERS is vested in its 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 and retired members. 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's pension and insurance funds. Additionally, the Kentucky Public Pensions Authority issues publicly available financial reports that include the Schedules of Employer Allocations and Pension amounts by Employer, and the Schedules of Employer Allocations and OPEB Amounts, by Employer. The most recent financial reports, may be obtained on-line as follows:

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

- Kentucky Retirement Systems Audit Report – 2021
<https://kyret.ky.gov/Publications/Books/2021%20Annual%20Report.pdf>
- KRS Schedules of Employer Allocations & Pension Amount by Employer for the Fiscal Year Ended June 30, 2021
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2021%20GASB%2068%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- KRS Schedules of Employer Allocations & OPEB Amounts by Employer for the Fiscal Year Ended June 30, 2021
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2021%20GASB%2075%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- Kentucky CERS GASB 68 Accounting & Financial Reporting for Pensions as of June 30, 2021 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2021%20GASB%2068%20Actuary%20Report%20CERS.pdf>
- Kentucky CERS GASB 75 Accounting & Financial Reporting for Postemployment Benefits Other Than Pensions as of June 30, 2021 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2021%20GASB%2075%20Actuary%20Report%20CERS.pdf>

Basis of Accounting – CERS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

Method Used to Value Investments/Investment Objectives – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year. Investment returns are recorded net of investment fees.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

- Shorter-Term (5 years and less): The returns of the particular asset classes of the managed funds, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio of comparable unmanaged market indices.
- Medium-Term (5 to 20 years): The returns of the particular asset classes of the managed funds, measured on a rolling 5 to 20 year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- Longer-Term: The total assets of the KRS should achieve a return of 6.25% for CERS pension and insurance plans. This is measured for 20 years and beyond and should exceed the actuarially required rate of return as well as the return achieved by its total fund benchmark.

Target Asset Allocation – Pension and Insurance as of June 30, 2021 and 2020:

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

The long-term 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 below. The current long-term inflation assumption is 2.3% per annum.

| | Target Asset Allocation | | Long-Term Expected Rate of Return | |
|-----------------------|----------------------------|----------------|--------------------------------------|--------------|
| | 2021 | 2020 | 2021 | 2020 |
| Combined Equity | 53.50% | 52.50% | 5.70%-9.70% | 3.90%-5.25% |
| Combined Fixed Income | 15.00% | 13.50% | 2.80% | -0.25% |
| Private Equity | 10.00% | 10.00% | 0.00% | 6.65% |
| Real Return | 10.00% | 15.00% | 4.55% | 3.95% |
| Real Estate | 10.00% | 5.00% | 5.40% | 5.30% |
| Opportunistic | 0.00% | 3.00% | 0.00% | 2.25% |
| Cash | 1.50% | 1.00% | -0.60% | -0.75% |
| | <u>100.00%</u> | <u>100.00%</u> | <u>5.00%</u> | <u>3.96%</u> |

- The investment portfolio for the Pension Funds reported a net return of 25.00% for the fiscal year 2021 compared to 1.15% return for fiscal year 2020. The investment portfolio for the Insurance Fund reported a net return of 24.95% for the fiscal year, which was higher than fiscal year 2020 net return of 0.48%. The investment return was above the 6.25% assumed rate of return.

PENSION PLAN DESCRIPTION – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous and hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS along with hazardous duty positions of each participating county, city, or school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, Cost of Living Adjustments were provided annually equal to the percentage increase in the annual average of the consumer price index (CPI) for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011.

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

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

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings for Tier 1 and Tier 2. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after earning a minimum months of service credit (120 months for Tier 2 and 180 months for Tier 3).

Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in a lump sum. The beneficiary of a deceased active member 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 non-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 contributions and any accumulated interest.

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

Contributions – Local government participating employers are required to contribute at an actuarially determined rate per Kentucky Revised Statute Section 78.545(33). The CERS Board of Trustees establishes the employer contribution rate 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. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. Under House Bill 352, the 2020 General Assembly only passed a one year budget (for the fiscal year ended June 30, 2021 due to the COVID-19 pandemic crisis. For the fiscal years ended June 30, 2021 and 2020 participating non-hazardous employers contributed 24.06% of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2021 and 2020 were 26.95% and 27.28%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

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.

Non-hazardous employer contributions for the year ended June 30, 2021 and 2020, of 24.06% were allocated 19.30% to CERS's pension fund and 4.76% to CERS OPEB (health insurance) fund, respectively.

For the fiscal years ended June 30, 2021 and 2020, membership consisted of:

Tier 1:

Plan members who began participating prior to September 1, 2008, are required to contribute 5% non-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:

Plan members who began participating on, or after, September 1, 2008 and before January 1, 2014, are required to contribute a total of 6% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contributions are deposited to the member's account. One percent of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). 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% contribution to the 401(h) account is non-refundable and is forfeited.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)**

Tier 3:

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. These members are classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5%, of their annual creditable compensation and an additional 1% to the health insurance fund which is not credited to the member's account and is not refundable. Tier 3 member accounts are also credited with an employer pay credit. The employer pay credit represents a portion of the employer contribution.

Interest is paid into the Tier 3 member's account. The account currently earns 4% interest credit on the member's account balance as of June 30th of the previous year. The member's account may be credited with additional interest if the system's five-year Geometric Average Net Investment Return (GANIR) exceeded 4%. If the member was actively employed and participating in the fiscal year, and if the systems' GANIR for the previous five years exceeds 4%, then the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30th of the previous year (Upside Sharing Interest). It is possible that one system in KPPA may get an Upside Sharing Interest, while another may not.

The one percent of pay member contributions for Tier 1 and Tier 2 members to a 401(h) subaccount are considered an OPEB asset.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Pension Plan)

Per the Kentucky Retirement System's 2021 Comprehensive Annual Financial Report, the Actuarially determined contribution rates effective for fiscal year 2021 were calculated as of June 30, 2019.

Based on the June 30, 2019, actuarial valuation report (as amended by SB249, passed during the 2020 legislative session), the actuarial methods and assumptions used to calculate the required contribution are below:

| Item | CERS June 30, 2021 Non-Hazardous | CERS June 30, 2020 Non-Hazardous |
|--|--|---|
| Determined by the Actuarial Valuation as of: | June 30, 2019 | June 30, 2018 |
| Actuarial Cost Method: | Entry Age Normal | Entry Age Normal |
| 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. |
| Amortization Method: | Level Percent of Pay | Level Percent of Pay |
| Amortization Period: | 30 Years, Closed period at June 30, 2019. Gains/Losses incurring after 2019 will be amortized over separate closed 20 year amortization bases. | 25 Years, Closed |
| Payroll Growth Rate: | 2.00% | 2.00% |
| Investment Return: | 6.25% | 6.25% |
| Inflation: | 2.30% | 2.30% |
| Salary Increases: | 3.30% to 10.30%, varies by service | 3.30% to 11.55%, varies by service |
| Mortality: | System-specific mortality table based on mortality experience from 2013 - 2018, projected with the ultimate rates from MP-204 mortality improvement scale using a base year of 2019. | RP-200 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females). For healthy retired members and beneficiaries, the mortality table used is the RP Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 combined disabled mortality table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. |
| Phase-In Provision | Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 | N/A |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Actuarial Methods and Assumptions Used in Calculation of the Actuarially Determined Total Pension Liability and Net Pension Liability

The Board of Trustees, in consultation with the actuary, set the actuarial assumptions and methods in the actuarial valuation. In general, the assumptions used in the June 30, 2021 actuarial valuations were adopted for first use in the June 30, 2019 valuation and are based on an experience study conducted with experience through June 30, 2018. There were no changes in actuarial assumptions or methods since the prior valuation. The net pension liability as of June 30, 2021, is based on the June 30, 2020 actuarial valuation rolled forward to June 30, 2021. The total pension liability, net pension liability and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled forward from the valuation date to the measurement date at June 30, 2021, using generally accepted actuarial principles.

The net position liability as of June 30, 2020, was based on the June 30, 2019 actuarial valuation rolled forward. The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date to the measurement date at June 30, 2020, using generally accepted actuarial principles.

The actuarial assumptions are:

June 30, 2021 and 2020

| | |
|---------------------------|----------------------------------|
| Inflation | 2.30% |
| Salary Increases | 3.30% - 10.30% varies by service |
| Investment Rate of Return | 6.25% |

The mortality table(s) used in the determination of the total pension liability as of June 30, 2021 and 2020 were as follows.

- The mortality table used for active members was a Pub-2010 General Mortality table for the Non-hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
- The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Discount Rate

The single discount rate of 6.25% for CERS was based on the expected return on pension investments. The projection of cash flows used to determine the single discount rate assumes that each participating employer contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy established in statute, as last amended by House Bill 362 (passed in 2018).

The discount rate does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the KPPA Comprehensive Annual Financial Report.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension

At December 31, 2021 and 2020 the District reported a liability of \$581,280 and \$748,507, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2021, and 2020 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021, and 2020 the District's proportion was 0.009117% and 0.009759% percent, respectively, which is a decrease of 0.000642 and of 0.000348% for the years ended June 30, 2021 and June 30, 2020, respectively.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

The District's total payroll for the calendar year ended December 31, 2021 was \$269,257. Contributions to the CERS were based on \$254,057 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2021 were \$51,709.

The District's total payroll for the calendar year ended December 31, 2020 was \$259,653. Contributions to the CERS were based on \$244,053 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2020 were \$47,102.

All contributions were made as required.

The District's contribution for the County Employees' Retirement System's year(s) ended June 30, 2021, and 2020 was 0.009117 and 0.009759 percent, respectively, of the System's total contribution requirements for all employers.

For the years ended December 31, 2021, and December 31, 2020, the District recognized pension expense of \$36,562 and \$104,800, respectively. At December 31, 2021 and 2020 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

| | December 31, 2021 | | December 31, 2020 | |
|---|---|--|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference Between Expected and Actual Experience | \$ 6,675 | \$ 5,642 | \$ 18,665 | \$ - |
| Change in Assumptions | 7,801 | - | 29,228 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 520 | 36,239 | 1,821 | 13,960 |
| Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 22,550 | 100,025 | 32,445 | 13,715 |
| District Contributions Made Subsequent to the NPL Measurement Date | 30,385 | - | 23,621 | - |
| Total | \$ 67,931 | \$ 141,906 | \$ 105,780 | \$ 27,675 |

\$30,385 and \$23,621 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2022 and 2021, respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

| | | Increase (Decrease) to Pension Expense |
|--------------------------------------|------|--|
| Year Ended December 31, 2021: | | |
| | 2022 | \$ (28,285) |
| | 2023 | (33,409) |
| | 2024 | (18,404) |
| | 2025 | (24,262) |
| | | \$ (104,360) |
| | | |
| | | Increase (Decrease) to Pension Expense |
| Year Ended December 31, 2020: | | |
| | 2021 | \$ 24,789 |
| | 2022 | 14,004 |
| | 2023 | 8,169 |
| | 2024 | 7,522 |
| | | \$ 54,484 |

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2021 and 2020, calculated using the discount rates of 6.25% and 6.25% for the years ended June 30, 2021 and 2020, respectively, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2021 | 1% Decrease [5.25%] | Current Discount [6.25%] | 1% Increase [7.25%] |
|--------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| Net Pension Liability | \$ 8,177,245,927 | \$ 6,375,784,388 | \$ 4,885,117,245 |
| District's Proportionate Share | 745,520 | 581,280 | 445,376 |
| | | | |
| As of June 30, 2020 | 1% Decrease [5.25%] | Current Discount [6.25%] | 1% Increase [7.25%] |
| Net Pension Liability | \$ 9,458,676,903 | \$ 7,669,917,211 | \$ 6,188,756,202 |
| District's Proportionate Share | 923,072 | 748,507 | 603,961 |

The discount rate determination does not use a municipal bond rate.

Payable to the Pension Plan

At December 31, 2021 and 2020, the District reported a payable of \$7,004 and \$4,312 for the outstanding amount of contributions required for the years then ended. The amount represents the employee withholding and employer match for the last month of the years then ended.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)**

OPEB PLAN

Insurance (OPEB) Plan Description – The Kentucky Public Pension Authority's Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. A portion of the insurance premiums are withheld from benefit payments for members including those of the CERS Non-Hazardous system.

Contributions

Members participating prior to July 1, 2003, 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 earned service increased by the CPI prior to July 1, 2009 and by 1.5% annually from July 1, 2009.

The amount of benefit paid by the Insurance Fund for members participating prior to July 1, 2003, are as follows:

| Portion Paid by Insurance Fund | |
|--------------------------------|-------------------------------|
| Years of Service | Paid by Insurance Fund (%) |
| 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% |

For the fiscal years ended June 30, 2021 and 2020, plan members who began on, or after, September 1, 2008 (classified in the Tier 2 or Tier 3 structure of benefits) were required to contribute 1% of their annual creditable compensation to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E), which is considered an OPEB asset.

If a member terminates employment the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Participating employers are required to contribute at an actuarially determined rate as described previously.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions (OPEB)

Per the Schedule of Employer Allocations and OPEB Amounts by Employer for Kentucky Retirement Systems, Reports for Postemployment Benefits Prepared as of June 30, 2021 and 2020, the actuarially determined contribution rates effective for fiscal year ending June 30, 2021 and 2020 are calculated based on the actuarial methods and assumptions as follows:

The actuarial methods and assumptions to determine the Total OPEB Liability and Net OPEB Liability are as follows:

| Item | CERS June 30, 2021 Non-Hazardous | CERS June 30, 2020 Non-Hazardous |
|--|---|---|
| Determined by the Actuarial Valuation as of: | June 30, 2019 | June 30, 2018 |
| Experience Study | July 1, 2008 - June 30, 2013 | July 1, 2008 - June 30, 2013 |
| Actuarial Cost Method: | Entry Age Normal | Entry Age Normal |
| 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. |
| Amortization Method: | Level Percent of Pay | Level Percent of Pay |
| Amortization Period: | 30 Years, Closed period at June 30, 2019. Gains/Losses incurring after 2019, will be amortized over separate 20 year amortization bases. | 25 Years, Closed |
| Payroll Growth Rate: | 2.00% | 2.00% |
| Investment Return: | 6.25% | 6.25% |
| Inflation: | 2.30% | 2.30% |
| Salary Increases: | 3.30% to 10.30%, varies by service | 3.30% to 11.55%, varies by service |
| 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. | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) |
| Healthcare Trend Rates (Pre-65) | Initial trend starting at 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement. | Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement. |
| Healthcare Trend Rates (Post-65) | Initial trend starting at 5.50% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement. | Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement. |
| Phase-in Provision | Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018. | Board Certified Rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018. |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)**

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and Net OPEB Liability

The assumed increase in future health care costs, or trend assumptions was reviewed during the June 30, 2020 valuation process and was updated to better reflect the plan's anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in healthcare costs. There were no other material assumption changes.

For financial reporting, the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

For financial reporting the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

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

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and Net OPEB Liability (Continued)

The actuarial methods and assumptions used to determine the Total OPEB Liability and Net OPEB Liability are as follows:

| Item | CERS June 30, 2021 Non-Hazardous | CERS June 30, 2020 Non-Hazardous |
|-----------------------------------|--|--|
| Inflation | 2.30% | 2.30% |
| Payroll Growth Rate | 2.00% | 2.00% |
| Salary Increases | 3.30%-10.30% varies by service | 3.05% Average |
| Investment Rate of Return | 6.25% | 6.25% |
| Healthcare Trend Rates Pre-65 | Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. | Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. |
| Post-65 | Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. |
| Mortality Pre-retirement | PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. | PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. |
| Post-retirement (non-disabled) | System Specific Mortality Table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. | System Specific Mortality Table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. |
| Post-retirement (disabled) | PUB-2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. | PUB-2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Discount Rate

The Insurance Plan single discount rate of 5.20% was used to measure the total OPEB liability as of June 30, 2021. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92% as reported in Fidelity Index's "20-year Municipal GO AA Index", as of June 30, 2021. The discount rate of 5.34% was used to measure the total OPEB liability as of June 30, 2020 and was based on the expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-year Municipal GO AA Index" as of June 30, 2020.

Implicit Employer Subsidy for non-Medicare retirees:

The fully-insured premiums KPPA pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees.

The cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and it is understood that any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Kentucky Public Pension Authority's CAFR.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan

At December 31, 2021 and 2020 the District reported a liability of \$174,502 and \$235,602, respectively.

The District's total payroll for the calendar year ended December 31, 2021 was \$269,257. Contributions were based on \$254,057 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2021 were \$13,555.

The District's total payroll for the calendar year ended December 31, 2020 was \$259,653. Contributions were based on \$244,053 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2020 were \$11,617.

All contributions were made as required.

The allocation of the employers' proportionate share of the Net OPEB Liability and OPEB expense was determined using the employer's actual contributions for the fiscal year ending June 30, 2021.

The District's contribution for the County Employee's Retirement System's (Insurance Plan) for the years ended June 30, 2021 and 2020 was 0.009115 percent and 0.009757 percent, respectively, of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the years ended June 30, 2021 and 2020 was \$5,782 and \$4,903, respectively.

For the years ended December 31, 2021 and 2020, the District recognized expense of \$13,068 and \$26,736, respectively. At December 31, 2021 and 2020 the District reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan (Continued)

| | December 31, 2021 | | December 31, 2020 | |
|---|---|--|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference Between Expected and Actual Experience | \$ 27,441 | \$ 52,101 | \$ 39,364 | \$ 39,395 |
| Change in Assumptions | 46,264 | 162 | 40,981 | 249 |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 83 | 15,212 | 108 | 6,545 |
| Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments | 8,792 | 36,090 | 12,638 | 4,807 |
| District Contributions Made Subsequent to the Net OPEB Measurement Date | 8,296 | - | 5,829 | - |
| Total | \$ 90,876 | \$ 103,565 | \$ 98,920 | \$ 50,996 |

\$8,296 and \$5,829 reported as deferred outflows of resources related to OPEB arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the years ended December 31, 2022 and 2021 respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources and deferred inflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

| | | Increase (Decrease) to OPEB Expense |
|--------------------------------------|-----------|--|
| Year Ended December 31, 2021: | | |
| 2022 | \$ | 56 |
| 2023 | | (4,085) |
| 2024 | | (4,272) |
| 2025 | | (12,684) |
| | \$ | (20,985) |
| | | |
| | | Increase (Decrease) to OPEB Expense |
| Year Ended December 31, 2020: | | |
| 2021 | \$ | 11,200 |
| 2022 | | 13,518 |
| 2023 | | 9,081 |
| 2024 | | 8,860 |
| 2025 | | (564) |
| | \$ | 42,095 |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Payable to the OPEB Health Insurance Plan

At December 31, 2021 and 2020, the District reported a payable of \$1,912 and \$1,064, respectively for the outstanding amount of contributions required for the years then ended. This amount represents the employee withholding and employer match for the last month of the years then ended.

Sensitivity of the District's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2021, calculated using the single discount rate of 5.20% as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2021 | 1% Decrease [4.20%] | Current Discount [5.20%] | 1% Increase [6.20%] |
|--------------------------------|------------------------|-----------------------------|------------------------|
| Net OPEB Liability | \$ 2,628,525,378 | \$ 1,914,449,967 | \$ 1,328,432,699 |
| District's Proportionate Share | 239,590 | 174,502 | 121,087 |

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2021, calculated using the healthcare cost trend rate for the year ended June 30, 2021 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2021 | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|--------------------------------|------------------|---------------------------------------|------------------|
| Net OPEB Liability | \$ 1,378,176,465 | \$ 1,914,449,967 | \$ 2,561,740,477 |
| District's Proportionate Share | 125,621 | 174,502 | 233,503 |

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2020, calculated using the single discount rate of 5.34% as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2020 | 1% Decrease [4.34%] | Current Discount [5.34%] | 1% Increase [6.34%] |
|--------------------------------|------------------------|-----------------------------|------------------------|
| Net OPEB Liability | \$ 3,102,175,364 | \$ 2,414,695,884 | \$ 1,850,046,176 |
| District's Proportionate Share | 302,679 | 235,602 | 180,509 |

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2020, calculated using the healthcare cost trend rate for the year ended June 30, 2020 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2020 | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|--------------------------------|------------------|---------------------------------------|------------------|
| Net OPEB Liability | \$ 1,869,578,166 | \$ 2,414,695,884 | \$ 3,076,209,120 |
| District's Proportionate Share | 182,415 | 235,602 | 300,145 |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 15 – RESALE AGREEMENT

The District has entered into a water resale agreement with the Kentucky American Water District under which agreement, Gallatin County Water District will sell its water to Kentucky American Water at a price of \$1.46 per thousand gallons. A minimum of 559,567 gallons is required to be purchased monthly. The agreement is for a term of 20 years with automatic one year extensions unless terminated by either party upon written notice as specified. Rates may be modified by providing 180 days notice, or by regulatory authority action.

NOTE 16 - PURCHASED WATER CONTRACT

Gallatin County Water District has a long-term contract with the City of Warsaw for the purchase of treated water. The original contract for water became effective July 28, 1986, and extended for a period of forty-five (45) years. On June 13, 2007 the contract was amended. Under the agreement, Gallatin County Water District will be charged \$1.25 per 1,000 gallons purchased, with a minimum of 500,000 gallons to be purchased monthly.

NOTE 17 – WATER SUPPLY AGREEMENT – ECONOMIC DEPENDENCY

The District has entered into a water-supply agreement with Kentucky Speedway, LLC. Under the terms of the agreement, Kentucky Speedway, LLC is assessed an annual minimum charge of \$35,000 for annual usage equal to that charge under the District's approved rates. The Speedway is billed monthly the minimum installment plus sales tax and school tax. When accumulated usage exceeds the annual maximum, the Speedway is charged the current rates in effect for that usage. 3.1% and 3.5% of total water revenue was received from Kentucky Speedway, LLC for the years ended December 31, 2021 and 2020, respectively. Additionally, the District received 6.7% and 6.4% from the commercial enterprise, Mississippi Lime, Inc. for the years ended December 31, 2021 and 2020, respectively.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

During the 2018 Kentucky Legislature Session, House Bill 362 passed which caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period July 1, 2018 to June 30, 2028. During the 2020 regular session, Senate Bill 249 froze the CERS employer rate phase-in for one year and House Bill 352 included provisions to keep the CERS rates the same as fiscal year 2020, effective July 1, 2020. The CERS Employer rate beginning July 1, 2021 and 2020 have been set at 26.95% and 24.06% respectively.

NOTE 19 – SUBSEQUENT EVENTS

The District has been awarded a Cleaner Water Program (CWP) in the amount of \$116,823 through the Kentucky Infrastructure Authority. These funds are provided through the American Rescue Plan Act of 2021, Corona Virus State Recovery Fund and must be obligated by December 31, 2026. Management has considered subsequent events through the date of this report August 4, 2021, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2021.

GALLATIN COUNTY WATER DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31**

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| District's proportion of the net pension liability (asset) % | 0.009117% | 0.009759% | 0.010107% | 0.010055% | 0.010106% | 0.010362% | 0.010281% | 0.010202% |
| District's proportionate share of the net pension liability (asset) | \$ 581,280 | \$ 748,507 | \$ 710,830 | \$ 612,380 | \$ 591,535 | \$ 510,172 | \$ 442,034 | \$331,000 |
| District's covered payroll (calendar year) | \$ 254,057 | \$ 244,053 | \$ 257,534 | \$ 253,029 | \$245,249 | \$ 244,405 | \$ 241,061 | \$243,426 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 228.80% | 306.69% | 276.01% | 242.02% | 241.20% | 208.74% | 183.37% | 135.98% |
| Plan fiduciary net position as a percentage of the total pension liability | 57.33% | 47.81% | 50.45% | 53.54% | 53.3% | 55.5% | 59.97% | 62.60% |

Calculations of the District's proportion of the net pension liability (%) and proportionate share of the net pension liability (\$) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and Pension Amounts by Employer for the fiscal years ended June 30, shown.

District payroll is reported for its covered calendar years ending December 31, 2014 through 2021.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become totally and permanently disabled in the line of duty or as a result of a duty related disability.

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---------------------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Inflation | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 3.25% | 3.25% | 3.50% |
| Salary Increases | 3.30%-10.30% | 3.30%-10.30% | 3.30%-10.30% | 3.05% | 3.05% | 4.00% | 4.00% | 4.50% |
| Investment Rate of Return | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% | 7.50% | 7.50% | 7.75% |

The mortality table(s) used in the determination of the total pension liability as of June 30, 2019 - 2021 were as follows. The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

In previous years the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were based on an actuarial valuation performed as of June 30, 2019.

GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM

Years Ended December 31

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Contractually required employer contributions | \$ 51,709 | \$ 47,102 | \$ 44,276 | \$ 38,567 | \$ 34,817 | \$ 30,355 | \$ 30,109 |
| Contributions in relation to the contractually required contributions | 51,709 | 47,102 | 44,276 | 38,567 | 34,817 | 30,355 | 30,109 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll (calendar year) | \$ 254,057 | \$ 244,053 | \$ 257,534 | \$ 253,029 | \$ 245,249 | \$ 244,405 | \$ 241,061 |
| Contributions as a percentage of covered payroll | 20.35% | 19.30% | 17.20% | 15.24% | 14.20% | 12.42% | 12.49% |

The District's contributions above include only contributions to the County Employees Retirement System Pension Fund. GASB 68 requires the District to present the above information for the CERS pension for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM

Years Ended December 31

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|------------|------------|------------|------------|------------|
| District's proportion of the net OPEB liability (asset) % | 0.009115% | 0.009757% | 0.010104% | 0.010055% | 0.010106% |
| District's proportionate share of the net OPEB liability (asset) | \$ 174,502 | \$ 235,602 | \$ 169,945 | \$ 178,525 | \$ 203,165 |
| District's covered payroll (Calendar Year) | \$ 254,057 | \$ 244,053 | \$ 257,534 | \$ 253,029 | \$ 245,249 |
| District's proportionate share of the net OPEB liability (asset) as a percentage of its of its covered payroll | 68.69% | 96.53% | 65.60% | 70.55% | 82.55% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 62.91% | 51.67% | 60.44% | 57.62% | 52.4% |

Calculations of the District's proportion of the net OPEB liability (%) and proportionate share of the net OPEB liability (\$) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and OPEB Amounts by Employer for the fiscal years ended June 30, shown.

GASB 75 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

District covered payroll is reported for its calendar year.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

Actuarial Methods and Assumptions for Determining Net OPEB Liability:

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|---------------------------------|--|--|--|---|---|
| Payroll Growth Rate | 2.00% | 2.0% | 2.0% | 2.0% | 2.0% |
| Salary Increases | 3.30%-10.30% varies by service | 3.30%-10.30% varies by service | 3.30%-10.30% varies by service | 3.05% Average | 3.05% Average |
| Investment Rate of Return | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% |
| Inflation | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% |
| Healthcare Trend Rates: Pre-65 | Initial trend at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. | Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. | Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. | Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. | Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. |
| Healthcare Trend Rates: Post-65 | Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. |
| Mortality: Pre-Retirement | PUB-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. | PUB-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. | PUB-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). |
| Post-Retirement | 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. | 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. | 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. | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). |
| Post-Retirement (disabled) | PUB 2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 is used for the period after disability. | PUB 2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 is used for the period after disability. | PUB 2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 is used for the period after disability. | RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. | RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. |

GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM

Years Ended December 31

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Contractually required employer contributions | \$ 13,555 | \$ 11,617 | \$ 14,353 | \$ 12,856 | \$ 11,605 | \$ 13,328 | \$ 11,727 |
| Contributions in relation to the contractually required contributions | 13,555 | 11,617 | 14,353 | 12,856 | 11,605 | 13,328 | 11,727 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll (calendar year) | \$ 254,057 | \$ 244,053 | \$ 257,534 | \$ 253,029 | \$ 245,249 | \$ 244,405 | \$ 241,061 |
| Contributions as a percentage of covered payroll | 5.34% | 4.76% | 5.57% | 5.10% | 4.73% | 5.45% | 4.86% |

The District's contributions above include only the contributions to the County Employees Retirement System Insurance Fund.

GASB 75 requires the District to present the above information for the CERS OPEB Plan for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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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 Commissioners of the
Gallatin County Water District
Sparta, KY 41086

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 Gallatin County Water District as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Gallatin County Water District's basic financial statements, and have issued our report thereon dated August 4, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gallatin 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gallatin County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Gallatin 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

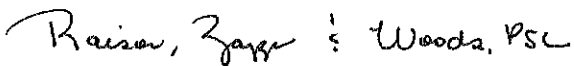
As part of obtaining reasonable assurance about whether Gallatin County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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*.

Gallatin County Water District's Response to Findings

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

Purpose of This Report

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



RAISOR, ZAPP, & WOODS P.S.C.
Certified Public Accountants
Carrollton, Kentucky

August 4, 2022

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2021**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Gallatin County Water District were prepared in accordance with GAAP.
2. Two material weakness disclosed during the audit of the financial statements are reported in the 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*. Items 2021-001 and 2021-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Gallatin County Water District, which would be required to be reported in accordance with the *Government Auditing Standards*, were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES

2021-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

District personnel have implemented sound oversight procedures over cash reconciliations and the monthly billing and expense disbursement processes. However due to the size of the District's administrative staff mispostings may occur and not be corrected. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2020 as 2020-001.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CAUSE:

One individual is responsible for posting the general ledger. Mispostings may occur and not be recognized. The Kentucky Public Pension Authority's Audit of the County Employees Retirement System by Employer for its year ended June 30, 2021 was not available timely for accurate reporting.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

Due to the size of the entity and the limited number of its administrative staff, it is important that individuals be cross-trained to prevent any lapses if unforeseen circumstances arise. Management should consider financial statement implications when posting to the general ledger to ensure accurate balances.

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

We concur with the recommendation. Management will continue their efforts in the review of underlying transactions and checking procedures and enhancing the training of personnel associated with its financial information.

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2021**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

**2021-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED
NOTE DISCLOSURES**

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2020 as 2020-002.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process. Recommended adjusting entries are approved and entered into the District's general ledger.

EFFECT:

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

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

As in the past, the outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. Management is continuing in the efforts to make improvements within bookkeeping procedures. It also realizes that the Governmental Accounting Standards Board (GASB) continues to change its generally accepted accounting principles (GAAP) for the state and local governments. Therefore, management will continue to be conscientious in obtaining additional assistance in this matter.

COMPLIANCE AND OTHER MATTERS

NONE