

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

At December 31, 2022 and 2021

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

Years Ended December 31, 2022 and 2021

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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

Opinion

We have audited the accompanying financial statements of Gallatin County Water District as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the 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, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the 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 29 through 35 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 May 26, 2023, 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

May 26, 2023

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022**

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, 2022. 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 \$7,342,110 and deferred outflows of resources of \$298,982 exceeded liabilities of \$3,792,477 and deferred inflows of resources of \$217,298 by \$3,631,317 (i.e. net position). Of the total net position, \$1,235,635 was unrestricted and was available to support short-term operations. Total net position increased from year end 2021 to 2022 in the amount of \$148,721.
- Total Operating Revenues decreased by \$3,516 mainly attributed to decreases in connection fees and miscellaneous income. Charges for water services increased by \$9,548.
- Total Operating Expenses increased by \$85,559 mainly attributed to increases associated with retirement plan expenses and benefits.
- The District was in compliance with all debt covenants required by borrowing agreements.

Statement of Net Position

Utility Plant decreased by \$56,614 net of depreciation, in 2022. (See diagram below.)

	Condensed Assets		
	2022	2021	Difference
Utility Plant	\$ 4,971,749	\$ 5,028,363	\$ (56,614)
Current Assets	2,142,886	2,061,695	81,191
Other Non-current Assets	227,475	229,171	(1,696)
Total Net Assets	<u>\$ 7,342,110</u>	<u>\$ 7,319,229</u>	<u>\$ 22,881</u>

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022**

At the end of December 31, 2022, the District had \$4,971,749 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2022</u>	<u>2021</u>
Land & Rights	\$ 226,229	\$ 226,229
Structures & Improvements	185,563	195,066
Distribution System	4,143,066	4,305,581
Wells	134,690	144,015
Machinery & Equipment	154,044	130,104
Construction in Process	<u>128,157</u>	<u>27,368</u>
Totals	<u>\$ 4,971,749</u>	<u>\$ 5,028,363</u>

This year's major additions included:

- Purchase of a new 2022 F350 Ford Dump Truck
- Several small line extensions were completed

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 \$298,982 and \$158,807 outflows and \$217,298 and \$245,471 inflows for the years ended December 31, 2022 and 2021, 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 verses 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 increased by \$42,508 attributable mainly to principal payments made on outstanding debts and increases in net pension liabilities.

Condensed Liabilities

	<u>2022</u>	<u>2021</u>	<u>Difference</u>
Long Term Debt	\$ 3,573,118	\$ 3,527,110	\$ 46,008
Current & Accrued Liabilities	219,359	222,859	(3,500)
Total Liabilities	<u>\$ 3,792,477</u>	<u>\$ 3,749,969</u>	<u>\$ 42,508</u>

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022**

Net Position

At December 31, 2022, net position increased \$148,721 as a result of contributions in aid of construction of \$32,561 in addition the District's income from operations (before contributions) of \$116,160. An increase of \$1,168 to net position for debt service is attributable to normal debt service transfers.

Condensed Net Position

	<u>2022</u>	<u>2021</u>	<u>Difference</u>
Net Investment in Capital Assets	\$ 2,231,108	\$ 2,140,022	\$ 91,086
Restricted for Debt Service	164,574	163,406	1,168
Unrestricted	1,235,635	1,179,168	56,467
Total	<u>\$ 3,631,317</u>	<u>\$ 3,482,596</u>	<u>\$ 148,721</u>

Statement of Revenues, Expenses and Changes in Net Position

Operating Revenues for 2022 decreased by \$3,516. Operating expenses increased by \$85,559 attributable mainly to retirement plan and post retirement benefit expenses. Depreciation increased by \$7,536. Non-operating revenues (expenses) reflects the increase associated with the sale of surplus property.

Condensed Statement of Revenues and Expenses

	<u>2022</u>	<u>2021</u>	<u>Difference</u>
Operating Revenues	\$ 1,210,700	\$ 1,214,216	\$ (3,516)
Operating Expenses	1,049,726	964,167	85,559
Operating Revenue	\$ 160,974	\$ 250,049	\$ (89,075)
Non-Operating Revenue (Expenses)	(44,814)	(61,033)	16,219
Income (Loss) Before Contributions	<u>\$ 116,160</u>	<u>\$ 189,016</u>	<u>(72,856)</u>

Statement of Cash Flows

Cash from Operating Activities was down \$73,624 in 2022. Cash from capital and related financing activities in 2022 reflect the monies received and used to finance capital improvements and equipment. Overall cash increased \$64,291. Cash is consistent with expectations for the year.

Condensed Statement of Cash Flows

	<u>2022</u>	<u>2021</u>	<u>Difference</u>
Cash from Operating Activities	\$ 440,387	\$ 514,011	\$ (73,624)
Cash used by Capital & Related Financing Activities	(378,206)	(293,644)	(84,562)
Cash from Investing Activities	2,110	1,330	780
Change in Cash	\$ 64,291	\$ 221,697	\$ (157,406)
Cash Balance, Beginning of Year	1,186,985	965,288	221,697
Cash Balance, End of Year	<u>\$ 1,251,276</u>	<u>\$ 1,186,985</u>	<u>\$ 64,291</u>

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022**

Debt

At year-end, the District had \$2,680,033 in notes payable, bonds payable and accrued compensated absences compared to \$2,810,842 last year as shown below. The decrease is attributable to the payment of scheduled principal and interest payments.

	<u>2022</u>	<u>2021</u>
Notes Payable	\$ 241,168	\$ 267,834
Bonds Payable	2,430,000	2,535,000
Accrued Compensated Absences	8,865	8,008
Totals	<u>\$ 2,680,033</u>	<u>\$ 2,810,842</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 \$740,902 and \$581,280 for the years ended December 31, 2022 and 2021 and was based on measurement dates of June 30, 2022 and 2021, respectively. The District's proportionate share of the net OPEB liability was \$202,265 and \$174,502 for years ending December 31, 2022 and December 31, 2021 and was based on measurement dates of June 30, 2022 and 2021, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District anticipates no changes in customer rates and expects small increases in operating revenues and expenses.

The District was awarded \$116,823 through the Cleaner Water Grant Program and \$150,000 through the Cleaner Water Phase 2 Grant Program. Grant funds will be used for miscellaneous system improvements. At December 31, 2022, only \$5,500 of these grant funds have been received.

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,930,292	\$ 1,855,449
Accounts Receivable Trade (Net)	118,165	121,238
Interest Receivable	3,157	1,945
Inventory	69,689	61,874
Prepaid Expense	21,583	21,189
Total Current Assets	<u>\$ 2,142,886</u>	<u>\$ 2,061,695</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 227,475	\$ 229,171
Capital Assets (Net)	4,971,749	5,028,363
Total Noncurrent Assets	<u>\$ 5,199,224</u>	<u>\$ 5,257,534</u>
Total Assets	<u>\$ 7,342,110</u>	<u>\$ 7,319,229</u>
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 187,256	\$ 67,931
Attributable to Employee OPEB Plan	111,726	90,876
Total Deferred Outflows of Resources	<u>\$ 298,982</u>	<u>\$ 158,807</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 22,989	\$ 18,411
Accounts Payable Capital Assets	1,994	10,275
Accrued Wages	6,952	5,153
Accrued Compensated Absences	8,865	8,008
Accrued Payroll Taxes/Employee Withholding	10,244	10,939
Utility Tax Payable	2,624	2,675
Sales Tax Payable	688	688
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	32,989	35,044
Revenue Bonds Payable	105,000	105,000
Note Payable - Kentucky Infrastructure Authority	27,014	26,666
Total Current Liabilities	<u>\$ 219,359</u>	<u>\$ 222,859</u>
Noncurrent Liabilities:		
Revenue Bonds Payable (Including Premium \$67,479 for 2022 and \$75,232 for 2021)	\$ 2,392,479	\$ 2,505,232
Note Payable - Kentucky Infrastructure Authority	214,154	241,168
Escrow - Customer Construction Deposits	350	350
Net Pension Liability	740,902	581,280
Net OPEB Liability	202,265	174,502
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	22,968	24,578
Total Noncurrent Liabilities	<u>\$ 3,573,118</u>	<u>\$ 3,527,110</u>
Total Liabilities	<u>\$ 3,792,477</u>	<u>\$ 3,749,969</u>
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 104,286	\$ 141,906
Attributable to Employee OPEB Plan	113,012	103,565
Total Deferred Inflows of Resources	<u>\$ 217,298</u>	<u>\$ 245,471</u>
NET POSITION		
Net Investment in Capital Assets	\$ 2,231,108	\$ 2,140,022
Restricted for Debt Service	164,574	163,406
Unrestricted	1,235,635	1,179,168
Total Net Position	<u>\$ 3,631,317</u>	<u>\$ 3,482,596</u>

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2022 and 2021

Operating Revenues:	<u>2022</u>	<u>2021</u>
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,169,328	\$ 1,159,780
Total Charges for Services	<u>\$ 1,169,328</u>	<u>\$ 1,159,780</u>
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 25,483	\$ 21,359
Connection Fees	14,135	17,810
Miscellaneous	1,754	15,267
Total Other Charges and Miscellaneous	<u>\$ 41,372</u>	<u>\$ 54,436</u>
Total Operating Revenues	<u>\$ 1,210,700</u>	<u>\$ 1,214,216</u>
 Operating Expenses:		
Bank Charges	\$ 2,414	\$ 2,813
Commissioner Fees	15,600	15,200
Contractual Service - Sampling	8,146	8,139
Data Usage - Cellular Read Meters	23,505	23,052
Dues	2,753	2,271
Employee Health Insurance and Benefits	53,181	55,536
Insurance	31,631	28,606
Labor	267,553	245,552
Maintenance of Mains	73,217	85,019
Office Supplies and Expense	53,480	50,746
Other Employee Post Retirement Benefits	26,430	12,634
Other Interest Expense	35	45
Payroll Taxes	21,347	19,731
Professional Services	18,100	19,110
Purchased Water	7,758	9,338
Regulatory Fees	1,820	2,323
Retirement Plan Expense	63,793	34,903
Travel/Transportation Expense	21,778	16,516
Uniforms	8,327	6,991
Office Utilities and Maintenance	14,672	12,111
Utilities - Pumping	73,551	60,432
Depreciation Expense	260,635	253,099
Total Operating Expenses	<u>\$ 1,049,726</u>	<u>\$ 964,167</u>
Operating Income (Loss)	<u>\$ 160,974</u>	<u>\$ 250,049</u>
 Nonoperating Revenue (Expense):		
Investment Income	\$ 12,177	\$ 10,293
Interest Expense	(74,297)	(79,031)
Gain (Loss) on Asset Disposition	17,306	7,705
Total Nonoperating Revenues (Expense)	<u>\$ (44,814)</u>	<u>\$ (61,033)</u>
Income (Loss) Before Contributions	\$ 116,160	\$ 189,016
Capital Contributions	<u>32,561</u>	<u>21,540</u>
Change in Net Position	\$ 148,721	\$ 210,556
Net Position - Beginning	<u>3,482,596</u>	<u>3,272,040</u>
Net Position	<u>\$ 3,631,317</u>	<u>\$ 3,482,596</u>

**GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,212,112	\$ 1,247,022
Payments to Suppliers	(84,606)	(103,513)
Payments to Employees	(249,297)	(260,557)
Other Receipts (Payments)	(437,822)	(368,941)
Net Cash Provided (Used) by Operating Activities	<u>\$ 440,387</u>	<u>\$ 514,011</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 32,561	\$ 17,836
Purchases of Capital Assets	(212,302)	(108,803)
Proceeds - Sale of Assets	17,306	7,705
Principal Paid on Capital Debt	(131,666)	(121,322)
Interest Paid on Capital Debt	(84,105)	(89,060)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (378,206)</u>	<u>\$ (293,644)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	\$ (8,856)	\$ (9,739)
Interest on Investments	10,966	11,069
Net Cash Provided (Used) by Investing Activities	<u>\$ 2,110</u>	<u>\$ 1,330</u>
Net Increase in Cash and Cash Equivalents	\$ 64,291	\$ 221,697
Balances-Beginning of the Year	1,186,985	965,288
Balances-End of the Year	<u>\$ 1,251,276</u>	<u>\$ 1,186,985</u>

	Balances Per December 31, 2022 Statement of Net Position	Balances Per December 31, 2022 Statement of Cash Flows
Cash	\$ 1,023,801	\$ 1,023,801
Time Deposits	906,491	-
Restricted Cash	227,475	227,475
Restricted Time Deposits	-	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 2,157,767</u>	<u>\$ 1,251,276</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>

(Continued)

**GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 160,974	\$ 250,049
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	260,635	253,099
Pension Expense	2,677	(15,147)
OPEB Expense	16,359	(487)
Change in Assets and Liabilities:		
Receivables, Net	3,073	32,684
Inventories	(7,815)	(12,413)
Prepaid Expenses	(394)	(1,152)
Accounts and Other Payables	4,578	4,409
Accrued Expenses	1,910	2,739
Customer Meter Deposits Payable	<u>(1,610)</u>	<u>230</u>
Net Cash Provided by Operating Activities	<u>\$ 440,387</u>	<u>\$ 514,011</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2022 and 2021, Gallatin County Water District had \$1,994 and \$10,275 capital expenditures or other noncash investing activities outstanding.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021**

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, 2022 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. \$5,500 of KIA Cleaner Water Grant Funds were received for the year December 31, 2022. No grant funds were received for the year ended December 31, 2021. Tap-on fees of \$27,061 and \$21,540 were received by the District for the years ended December 31, 2022 and 2021.

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, 2022 and 2021

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:

$$\begin{array}{rcl}
 & \text{one sixth (1/6) of the next semiannual interest payment} & \\
 + & \text{one twelfth (1/12) of next annual principal payment} & \\
 = & \text{monthly transfer} &
 \end{array}$$

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 2022 and 2021.

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, 2022 and 2021, in accordance with the District's policy, \$250,000 and \$250,000 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 \$1,962,054 and \$1,893,022 at December 31, 2022 and 2021, respectively as additional collateral. Thus the District had no deposits that were exposed to custodial credit risk.

December 31, 2022

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 300,951	\$ 296,982
Time and Savings Deposits	1,860,694	1,860,695
Total Deposits	<u>\$ 2,161,645</u>	<u>\$ 2,157,677</u>

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>

Reconciliation to Statement of Net Position:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Unrestricted Cash, Including Time Deposits	\$ 1,930,292	\$ 1,855,449
Restricted Cash, Including Time Deposits	227,475	229,171
Less Cash on Hand	(90)	(90)
	<u>\$ 2,157,677</u>	<u>\$ 2,084,530</u>

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Customer Deposits	\$ 29,912	\$ 30,721
Speedway Maintenance and Replacement Reserve	38,064	37,831
Bond and Interest Sinking Account - KRWF	<u>159,499</u>	<u>160,619</u>
Total	<u>\$ 227,475</u>	<u>\$ 229,171</u>

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$3,668 and \$6,942 at December 31, 2022 and 2021, 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, 2022 and 2021, was as follows:

	<u>Balance at January 1, 2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2022</u>
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	366,117	-	-	366,117
Distribution System	9,660,278	53,416	-	9,713,694
Wells	372,187	-	-	372,187
Machinery & Equipment	388,301	49,816	46,273	391,844
Construction in Process	27,368	127,144	26,355	128,157
Totals at Historical Cost	<u>\$ 11,072,406</u>	<u>\$ 230,376</u>	<u>\$ 72,628</u>	<u>\$ 11,230,154</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	171,051	9,503	-	180,554
Distribution System	5,354,697	215,931	-	5,570,628
Wells	228,172	9,325	-	237,497
Machinery & Equipment	258,197	25,876	46,273	237,800
Total Accumulated Depreciation	<u>\$ 6,044,043</u>	<u>\$ 260,635</u>	<u>\$ 46,273</u>	<u>\$ 6,258,405</u>
Capital Assets, Net	<u>\$ 5,028,363</u>	<u>\$ (30,259)</u>	<u>\$ (26,355)</u>	<u>\$ 4,971,749</u>

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at January 1, 2021	Additions	Disposals	Balance at December 31, 2021
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>

Land and land rights are capital assets not being depreciated. Included under the District's plant assets were \$1,759,067 and \$1,741,890 of fully depreciated assets, at December 31, 2022 and 2021, respectively.

Depreciation expense aggregated \$260,635 and \$253,099 in 2022 and 2021, 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, 2022 and 2021

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, 2022 and 2021, the long-term debt payable consisted of the following:

Notes Payable:

	<u>December 31, 2022</u>	<u>December 31, 2021</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.	\$ 241,168	\$ 267,834
Total Notes Payable	\$ 241,168	\$ 267,834
Current Portion	\$ 27,014	\$ 26,666
Noncurrent Portion	214,154	241,168
Total Notes Payable	\$ 241,168	\$ 267,834

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. If 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.	\$ 915,000	\$ 980,000
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.	1,515,000	1,555,000
Total Bonds Payable	\$ 2,430,000	\$ 2,535,000
Current Portion	\$ 105,000	\$ 105,000
Noncurrent Portion	2,325,000	2,430,000
Total Bonds Payable	\$ 2,430,000	\$ 2,535,000

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	\$ 8,865	\$ 8,008
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**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

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, 2022 and 2021 was \$4,032 and \$4,334, respectively. The unamortized premium balance was \$23,040 and \$27,072 at December 31, 2022 and 2021, 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, 2022 and 2021 was \$3,722 and \$3,882, respectively. The unamortized premium balance was \$44,439 and \$48,160 at December 31, 2022 and 2021, respectively.

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2022 and 2021.

December 31, 2022

	Balance at January 1, 2022	Additions	Reductions	Balance at December 31, 2022	Current Portion
Notes Payable	\$ 267,834	\$ -	\$ 26,666	\$ 241,168	\$ 27,014
Bonds Payable	2,535,000	-	105,000	2,430,000	105,000
Accrued Compensated Absences	8,008	11,799	10,942	8,865	8,865
Total Long-Term Debt	<u>\$ 2,810,842</u>	<u>\$ 11,799</u>	<u>\$ 142,608</u>	<u>\$ 2,680,033</u>	<u>\$ 140,879</u>

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>

The annual requirements for all long-term debt outstanding at December 31, 2022, are as follows:

Due	Bonds	Bond Interest	KIA Note	Note Interest	Note Servicing Fee	Total Payments Due
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	1,976	304	215,355
2027	130,000	54,136	28,451	1,611	248	214,446
2028-2032	600,000	207,039	102,530	2,684	413	912,666
2033-2037	485,000	131,123	-	-	-	616,123
2038-2042	385,000	73,168	-	-	-	458,168
2043-2047	380,000	25,907	-	-	-	405,907
	<u>\$ 2,430,000</u>	<u>\$ 762,782</u>	<u>\$ 241,168</u>	<u>\$ 14,352</u>	<u>\$ 2,209</u>	<u>\$ 3,450,511</u>

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt (Continued)

The annual requirements for all long-term debt outstanding at December 31, 2021 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>
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	1,976	304	215,355
2027-2031	610,000	226,496	130,981	4,295	661	972,433
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>

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. \$8,865 and \$8,008 of accrued compensated absences were payable at December 31, 2022 and December 31, 2021, respectively.

NOTE 10 – INTEREST EXPENSE

Interest expense incurred and charged to expense, net of bond premium amortization, for the years ended December 31, 2022 and 2021 was \$74,332 and \$79,076, respectively.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION

	<u>2022</u>	<u>2021</u>
Restricted for Debt Service:		
Kentucky Rural Water		
Flexible Term Finance Program Bonds and Kentucky		
Infrastructure Authority Note		
Cash	\$ 197,563	\$ 198,450
Add: Accrued Interest Receivable	-	-
Less: Accrued Interest Payable	(32,989)	(35,044)
Total Restricted for Debt Service	<u>\$ 164,574</u>	<u>\$ 163,406</u>

Unrestricted net position was decreased by \$19,037 and increased by \$15,634 for the years ended December 31, 2022 and 2021, 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>2022</u>	<u>2021</u>
Increase (Decrease) in Deferred Outflows of Resources	140,175	(45,893)
(Increase) Decrease in Deferred Inflows of Resources	28,173	(166,800)
(Increase) Decrease in Net Pension Liability	(159,622)	167,227
(Increase) Decrease in Net OPEB Liability	(27,763)	61,100
Net (Decrease)/Increase in Unrestricted Net Position	<u>(19,037)</u>	<u>15,634</u>

NOTE 12 – BAD DEBT EXPENSE

Water revenue charges have been netted with estimated bad debt expense of \$2,457 and \$4,768 at December 31, 2022 and 2021, 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 – RETIREMENT PLAN

The Gallatin County Water District is a participating employer of the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees administered by the Kentucky Public Pension Authority (KPPA). Under the provisions of Kentucky Revised Statute 78.782 and 61.645, the KPPA oversees the administration and operation of the CERS. The CERS Board has nine trustees, three elected by the membership and six appointed by the Governor. The CERS issues a publicly available financial report that includes financial statements, required supplementary information, and detailed information about CERS' fiduciary net position. These financial statements may be downloaded from the KPPA website, kyret.ky.gov.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

NOTE 14 – RETIREMENT PLAN (Continued)

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.

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

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% through June 30th and 26.79% thereafter, of each non-hazardous employee's creditable compensation, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and the insurance trust. The insurance trust is more fully described in Note 13. For the year ended December 31, 2022, plan members contributed 21.17% through June 30th and 23.40% thereafter to the pension for non-hazardous job classifications. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

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

For the year ended December 31, 2022, the District contributed \$63,094 or 100% of the required contribution for non-hazardous job classifications.

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.

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old and 4 years of service
	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, 2022 and 2021**

NOTE 14 – RETIREMENT 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. Reduced benefits are based on factors of both components. Participating employees become eligible to receive the health insurance benefit after earning at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in a lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Prior to July 1, 2009, cost-of-living (COLA) 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 1.50%. Senate Bill 2 passed during the 2013 Regular Session states COLAs will only be granted in the future if the Systems' Boards determine that assets of the Systems are greater than 100% of the actuarial liabilities and legislation authorizes the use of surplus funds for the COLA. Cost-of-living adjustments are provided at the discretion of the Kentucky General Assembly. Kentucky Revised Statute 78.5518 governs how COLAs may be granted for members of CERS. No COLA has been granted since July 1, 2011.

Actuarial Methods and Assumptions to Determine the Total Pension Liability and the Net Pension Liability – For financial reporting, the actuarial valuation as of June 30, 2022, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2022, were based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles. There have been no actuarial assumption or method changes since June 30, 2021. Additionally, there have been no plan provision changes that would materially impact the total pension liability since June 30, 2021. The total pension liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increases	3.30% - 10.30%, varies by service
Investment Rate of Return	6.25%

In determining the total pension liability as of June 30, 2022, the mortality table used for active members was a PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Actuarial Methods and Assumptions to Determine the Actuarial Determined Contributions for Fiscal Year 2022

- The following actuarial methods and assumptions, were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2022:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 Years, closed period at June 30, 2019, <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 14 – RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions to Determine the Actuarial Determined Contributions for Fiscal Year 2022 (Continued)

Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

The retiree mortality is System-specific mortality table based on mortality experience from 2013-2018 projected with the ultimate rates from MP-2014 mortality improvement scale using base year of 2019.

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 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.

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 are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target asset allocation (applies to all pension and insurance funds maintained by CERS) and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below. The current long-term inflation assumption is 2.30% per annum.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	100.00%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

NOTE 14 – RETIREMENT PLAN (Continued)

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, 2022, the District reported a liability of \$740,902 for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022, the District's proportion was 0.010249 percent, which was an increase of 0.001132 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized pension expense of \$68,082. At December 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2022		December 31, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 792	\$ 6,598	\$ 6,675	\$ 5,642
Change in Assumptions	-	-	7,801	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	54,423	15,868	520	36,239
Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	100,815	81,820	22,550	100,025
District Contributions Made Subsequent to the NPL Measurement Date	31,226	-	30,385	-
Total	<u>\$ 187,256</u>	<u>\$ 104,286</u>	<u>\$ 67,931</u>	<u>\$ 141,906</u>

\$31,226 and \$30,385 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, 2023 and December 31, 2022, 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:

Year Ended December 31, 2022	Increase (Decrease) to Pension Expense
2023	\$ 12,236
2024	24,687
2025	(6,226)
2026	21,047
	<u>\$ 51,744</u>

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

NOTE 14 – RETIREMENT PLAN (Continued)

Discount Rate – The projection of cash flows used to determine the discount rate of 6.25% assumes that CERS fund receives the required employer contributions each future year, as determined by the current funding policy established by Statute, as amended by House Bill 362, (passed in 2018) over the remaining 29 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2022, calculated using the discount rates of 6.25%], 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, 2022	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
Net Pension Liability	\$ 9,035,369,943	\$ 7,229,013,496	\$ 5,735,006,798
District's Proportionate Share	926,035	740,902	587,781

Payable to the Pension Plan - The District reported a payable of \$8,362, as of December 31, 2022, for the outstanding amount of contributions required to the pension plan required for the year then ended. The payable includes both the pension and insurance contribution allocation.

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 14, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

The CERS Nonhazardous Insurance Funds are reported as OPEB trust funds and are accounted for on the accrual basis of accounting. OPEB contributions are determined by the CERS Board and are required by the employers, and the employees' contributions are set by Kentucky Revised Statute 78.5536(3)(b)(1) and 61.702(3)(b)(1). KPPA recognized employer and employee contributions to the plans through June 30, 2022. OPEB expenses are recognized as the benefits come due for the plan, which includes payments made to the Department of Employee Insurance (DEI), and Humana Inc. for OPEB costs incurred for the fiscal year ended June 30, 2022. KPPA contracts with DEI and Humana Inc to administer the claims. DEI administers retiree claims for retirees who are non-Medicare eligible, and Humana administers retiree claims for members who are Medicare eligible. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

Contributions – As more fully described in Note 14, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2022, the employer's contribution was 5.78% through June 30th and 3.39% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employees are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pension Authority are financed through employer contributions and investment earnings.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003, by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA.

The total OPEB liability as of June 30, 2022 is determined using these updated benefit provisions. There were no other material plan provision changes.

For the year ended December 31, 2022, the District contributed \$10,357 or 100% of the required contribution for non-hazardous job classifications.

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

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

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

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability – For financial reporting, the actuarial valuation as of June 30, 2022, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2022, were based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles.

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

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increases	3.30% - 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rate	
Pre – 65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 9.00% in 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

In determining the total OPEB liability as of June 30, 2022, the mortality table used for active members was PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for 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 retired 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.

Actuarial Methods and Assumptions to Determine the Actuarial Determined OPEB Contributions for Fiscal Year 2022 - The following actuarial methods and assumptions, were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2022:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 Years, closed period at June 30, 2019, <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rate	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post – 65	Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of valuation and were incorporated into the liability measurement. Additionally, "Not to Exceed" 2022 Medicare premiums were provided, which were incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 1, 2022.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At December 31, 2022, the District reported a liability of \$202,265 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022, the District's proportionate share was 0.010249 percent, which was an increase of 0.001134 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized OPEB expense of \$24,406. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

	December 31, 2022		December 31, 2021	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 20,360	\$ 46,384	\$ 27,441	\$ 52,101
Change in Assumptions	31,990	26,359	46,264	162
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	17,188	10,815	83	15,212
Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments	37,664	29,454	8,792	36,090
District Contributions Made Subsequent to the Net OPEB Measurement Date	4,524	-	8,296	-
Total	<u>\$ 111,726</u>	<u>\$ 113,012</u>	<u>\$ 90,876</u>	<u>\$ 103,565</u>

\$4,524 and \$8,296 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, 2023 and 2022 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:

Year Ended	Increase (Decrease)
December 31, 2022	<u>to OPEB Expense</u>
2023	\$ (102)
2024	(349)
2025	(10,006)
2026	4,647
	<u>\$ (5,810)</u>

Discount Rate – The single discount rate used to calculate the total OPEB liability within the plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021, valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material assumption changes. A single discount rate of 5.70% was used to measure the total OPEB liability as of June 30, 2022, for the CERS Nonhazardous plan. This is an increase of 0.50% from the 5.20% discount rate used to measure the total OPEB liability as of June 30, 2021, for the CERS Nonhazardous plan. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69% as reported in Fidelity Index's "20-year Municipal GO AA Index", as of June 30, 2022. Based on the stated assumptions and the projection of cash flows as of the fiscal year ending June 30, 2022, the plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plan's actuarially determined contributions and any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in Note 14.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2022 and 2021**

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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, 2022, calculated using the single discount rate of 5.70%], 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:

<u>As of June 30, 2022</u>	<u>1% Decrease [4.70%]</u>	<u>Current Discount [5.70%]</u>	<u>1% Increase [6.70%]</u>
Net OPEB Liability	\$ 2,638,272,960	\$ 1,973,513,617	\$ 1,423,979,067
District's Proportionate Share	270,397	202,265	145,944

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, 2022, calculated using the healthcare cost trend rate for the year ended June 30, 2022], 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:

<u>As of June 30, 2022</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 1,467,263,523	\$ 1,973,513,617	\$ 2,581,424,500
District's Proportionate Share	150,380	202,265	264,570

NOTE 16 – 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 17 – 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 18 – 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. 2.6% and 3.1% of total water revenue was received from Kentucky Speedway, LLC for the years ended December 31, 2022 and 2021, respectively. Additionally, the District received 5.2% and 6.7% of total water revenue from the commercial enterprise, Mississippi Lime, Inc. for the years ended December 31, 2022 and 2021, respectively.

NOTE 19 – COMMITMENTS, CONTINGENCIES, & SUBSEQUENT EVENTS

The District plans to upgrade the SCADA System in 2023 and has awarded a bid in the amount of \$183,000. The District has been awarded a Cleaner Water Program (CWP) in the amount of \$266,823 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. As of December 31, 2022, The District has received \$5,500 of these grant funds. The District has plans to use these funds for system improvements and the remainder for the purchase of a mobile generator unit. Management has considered subsequent events through the date of this report May 26, 2023, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2022.

GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
For the Years Ended December 31

Reporting Year End (Measurement Date)	2022 (June 30, 2022)	2021 (June 30, 2021)	2020 (June 30, 2020)	2019 (June 30, 2019)	2018 (June 30, 2018)	2017 (June 30, 2017)	2016 (June 30, 2016)	2015 (June 30, 2015)	2014 (June 30, 2014)
District's proportion of the net pension liability %	0.010249%	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)	\$ 740,902	\$ 581,280	\$ 748,507	\$ 710,830	\$ 612,380	\$ 591,535	\$ 510,172	\$ 442,034	\$ 331,000
District's covered employee payroll (calendar year)	\$ 273,337	\$ 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 of its covered employee payroll	271.06%	228.80%	306.89%	276.01%	242.02%	241.20%	208.74%	183.37%	135.98%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.45%	53.54%	53.3%	55.5%	59.97%	62.60%

Notes: The above schedule will present 10 years of historical data, once such data is available.

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM
For Years Ended December 31**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contributions	\$ 63,094	\$ 51,709	\$ 47,102	\$ 44,276	\$ 38,567	\$ 34,817	\$ 30,355	\$ 30,109
Contributions in relation to the contractually required contributions	63,094	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>	<u>\$ -</u>
District's covered payroll (calendar year)	\$ 273,337	\$ 254,057	\$ 244,053	\$ 257,534	\$ 253,029	\$ 245,249	\$ 244,405	\$ 241,061
Contributions as a percentage of covered payroll	23.08%	20.35%	19.30%	17.20%	15.24%	14.20%	12.42%	12.49%

Notes: The above schedule will present 10 years of historical data, once such data is available.

GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
For the Years Ended December 31

Reporting Year End (Measurement Date)	2022 (June 30, 2022)	2021 (June 30, 2021)	2020 (June 30, 2020)	2019 (June 30, 2019)	2018 (June 30, 2018)	2017 (June 30, 2017)
District's proportion of the net OPEB liability (asset) %	0.010249%	0.009115%	0.009757%	0.010104%	0.010055%	0.010106%
District's proportionate share of the net OPEB liability (asset)	\$ 202,265	\$ 174,502	\$ 235,602	\$ 169,945	\$ 178,525	\$ 203,165
District's covered employee payroll (Calendar Year)	\$ 273,337	\$ 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	74.00%	68.69%	96.53%	65.60%	70.55%	82.55%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%	52.4%

Notes: The above schedule will present 10 years of historical data, once such data is available.

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contributions	\$ 10,357	\$ 13,555	\$ 11,617	\$ 14,353	\$ 12,856	\$ 11,605	\$ 13,328	\$ 11,727
Contributions in relation to the contractually required contributions	10,357	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>	<u>\$ -</u>
District's covered payroll (calendar year)	\$ 273,337	\$ 254,057	\$ 244,053	\$ 257,534	\$ 253,029	\$ 245,249	\$ 244,405	\$ 241,061
Contributions as a percentage of covered payroll	3.79%	5.34%	4.76%	5.57%	5.10%	4.73%	5.45%	4.86%

Notes: The above schedule will present 10 years of historical data, once such data is available.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022 AND 2021**

1. General Information

Contributions

Contractually required employer contributions reported on the Schedule of the District's Contributions (Pension) – County Employees Retirement System, exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of the District's Contributions (OPEB) – County Employees Retirement System.

Payroll

The District's covered payroll reported on the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of the District's Proportionate Share of the Net OPEB Liability is for the District's calendar year and differs from the CERS fiscal year.

2. Changes in Assumptions

December 31, 2022 – Pension & OPEB

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

- Pre-65 initial healthcare trend rate starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement.
- Post-65 initial healthcare trend rate starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of valuation and were incorporated into the liability measurement. Additionally, "Not to Exceed" 2022 Medicare premiums were provided, which were incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 1, 2022.

December 31, 2021 – Pension & OPEB

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 because of a duty related disability.

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

- Salary Increases of 3.30% to 10.30%, varies by service
- 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
- Pre-65 initial healthcare trend rate 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.
- Post-65 initial healthcare trend rate 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 valuation and were incorporated into the liability measurement.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2022 AND 2021**

2. Changes in Assumptions (Continued)

December 31, 2020 – Pension & OPEB

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

- Pre-65 initial healthcare trend rate starting at 7.0% 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.
- Post-65 initial healthcare trend rate 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 valuation and were incorporated into the liability measurement.

December 31, 2019 – Pension & OPEB

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

- Payroll Growth Rate 2.0%
- Investment Rate of Return 6.25%
- Inflation 2.30%
- Salary Increases of 3.30% to 11.55%
- Pre-65 initial healthcare trend rate starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
- Post-65 initial healthcare trend rate starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

December 31, 2018 – Pension & OPEB

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.

The following assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for OPEB:

- Payroll Growth Rate 4.0%
- Investment Rate of Return 7.50%
- Inflation 3.25%
- Salary Increases 4.0%, average
- Mortality: RP-2000 Combined Mortality Table, Projected to 2013 with Scale BB (set back 1 year for females)
- Pre-65 initial healthcare trend rate starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
- Post-65 initial healthcare trend rate starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2022 AND 2021**

2. Changes in Assumptions (Continued)

December 31, 2017 – Pension

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

- Payroll Growth Rate 2.0%
- Investment Rate of Return 6.25%
- Inflation 2.3%

December 31, 2016 – Pension

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

December 31, 2015 – Pension

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

- Investment Rate of Return 7.50%
- Inflation 3.25%
- Wage Inflation 0.75%
- Salary Increases 4.0%
- Mortality:
 - Active Members: RP-2000 Combined Mortality Table, projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
 - Healthy Retired Members & Beneficiaries: RP-2000 Combined Mortality Table, projected with Scale BB to 2013 (set back 1 year for females).
 - Disabled Members: RP-2000 Combined Disability Mortality Table, projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

December 31, 2014 – Pension

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

December 31, 2013 – Pension

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

- Payroll Growth Assumption Rate 4.50%
- Investment Rate of Return 7.75%
- Inflation 3.50%
- Mortality: Rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other Members.

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, 2022, 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 May 26, 2023.

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 2022-001 and 2022-002 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 PSC

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

May 26, 2023

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2022**

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 2022-001 and 2022-002 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

2022-001 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, 2021 as 2021-001.

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:

Due to the limited number of personnel, mispostings of the general ledger 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, 2022 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, 2022**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

**2022-002 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, 2021 as 2021-002.

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